

FINANCIAL TIMES

World Business Newspaper <http://www.ft.com>

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Spain's Popular Party

Why Aznar aims for a younger, softer profile

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Ambitious in everything it has tried

John Lloyd, Page 12



Jini

Complications in Sun's bid to simplify networks

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Irrational exuberance

Should central banks protect investors?

Martin Wolf, Page 13

The world's biggest companies

The FT500, the annual ranking of the top 500 companies in the world, reflects a year of sharply fluctuating corporate fortunes.

In tomorrow's FT

WORLD NEWS

Colombia appeals for help as quake toll rises above 500

The earthquake in Colombia's central coffee-growing region killed at least 500 people and injured nearly 2,000 others, officials said. The country's Red Cross appealed urgently for blood, basic medical supplies and clothing. Picture, Page 14; Coffee market, Page 24

Turkey seeks IMF approval

Turkey is trying to persuade the International Monetary Fund that it deserves praise and pledges of financial support for continuing its reforms. Europe, Page 3

Albright reassures Russians

US secretary of state Madeleine Albright tried to calm Russian fears that the US intended to abandon the Anti-Ballistic Missile treaty, the latest issue of contention in an uneasy US-Russian relationship. Europe, Page 2

Hussein back in US for checks

King Hussein returned to the US for medical checks, hours after attacking his brother, Prince Hassan, who was removed from the Jordanian succession last weekend. The King accused Prince Hassan of intrigue and meddling. International, Page 14; Editorial comment, Page 13

SA election chief quits

Johann Krieger, the man in charge of organising South Africa's second post-apartheid elections, resigned. His reasons were not made public. International, Page 6

Netanyahu appoints rival

Moshe Arens, Israeli prime minister Benjamin Netanyahu's challenger for leadership of the Likud party, agreed to be his defence minister. International, Page 6

Beijing in Silicon Valley push

Haidien experimental high-tech zone China's "Silicon Valley" hopes to attract foreign venture capital to help it create an important high-tech enclave in Beijing, Asia, Page 4

Republicans scale back request

US Republican prosecutors reduced the number of witnesses they hope to call for President Bill Clinton's impeachment trial. Important votes are expected today on whether to dismiss the case and whether to call witnesses. US, Page 7

Germany seeks EU financing deal

Germany, current president of the European Union, has set a hectic timetable to try to achieve agreement on future EU financing by the end of March. Europe, Page 2

North Korea fixes polling date

North Korea named March 7 as the day for the first local elections since the death in 1994 of "Great Leader" Kim Il-sung. Elections to provincial assemblies were last held in November 1993.

Schröder to delay end of nuclear power

Decision strains Red/Green coalition

By Frederick Stedemann in Bonn

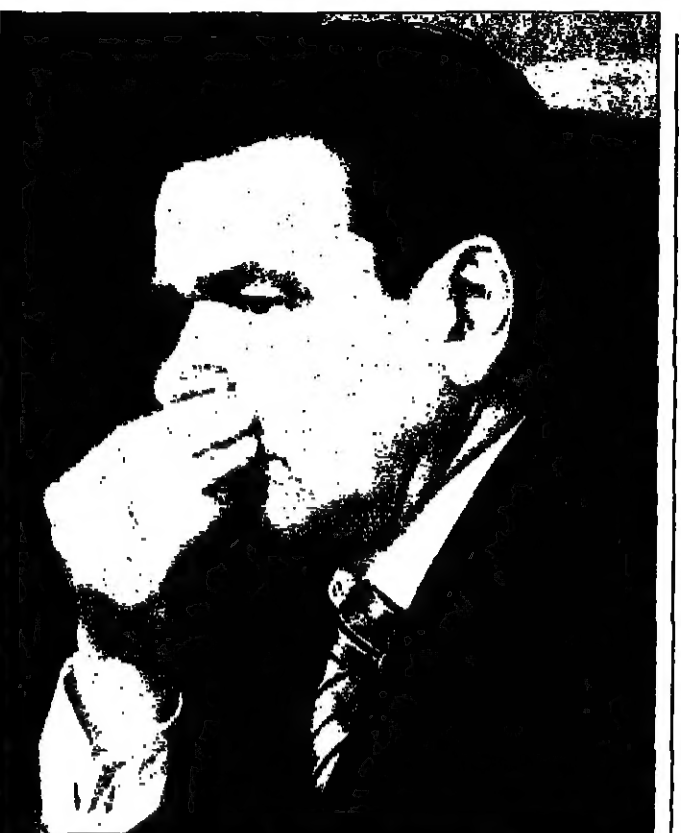
Gerhard Schröder, Germany's chancellor, yesterday bowed to international and domestic business pressure and backtracked on key elements of his government's plans to phase out nuclear power.

His decision should ease tensions with Britain and France over the reprocessing of German nuclear waste, but risks provoking a rift with his Green party coalition partners who are committed to scrapping nuclear power.

After a first round of "consensus talks" between government and industry, Mr Schröder said the reprocessing of German nuclear waste by companies in France and Britain would continue until suitable alternatives had been found.

He also said the timetable for the shut-down of the country's 19 nuclear reactors would be decided on a case-by-case basis in negotiation with industry.

The concessions rescued, for now, Mr Schröder's ambitions for reaching a compromise over an "orderly" exit from nuclear power.



Gerhard Schröder, Germany's chancellor, eased tensions with France and the UK by back-tracking over plans to phase out nuclear power. Picture: AP

But Rezzo Schlauch, co-head of the Greens' parliamentary faction, described yesterday's result as "unsatisfactory", especially as his party had failed to enforce a clear deadline for an end to reprocessing.

Jürgen Trittin, the Green environment minister, sought to paint yesterday's decision as a partial success even though it overturns his original plan to end reprocessing as soon as possible.

"We are pleased the nuclear industry expressly recognised that politics must prevail and that they respect the voters' decision to end nuclear energy in this country," he said.

Germany's decision, on environmental grounds, to switch from storing high level nuclear waste in salt mines at Gorleben - now deemed unsafe - to building interim above-ground storage facilities at nuclear power stations is expected to take several years.

Manfred Timm, head of Germany's HEW utility and spokesman for the nuclear operators, said German industry fundamentally disagreed with the government's plans but that, as democrats, they respected the primacy

EU contract workers may win greater protection

By Michael Smith in Brussels

Millions of fixed-term contract workers in the European Union could soon win legal protection against discrimination in areas such as working hours and company pensions.

Unice, the European employers' federation, and the European Trades Union Congress, have agreed an outline deal that would limit the use of successive contracts and "improve the quality of fixed-term work".

The deal must be approved by national unions and employers' organisations to take effect, but both Unice and the ETUC were hopeful yesterday that it would go through.

The EU has around 17m fixed-term workers out of a total workforce of 150m, some of whom are already protected against discrimination by national laws.

Trade unions complain that employers use short-term contracts to deprive workers of rights and benefits they would receive if they were on the permanent payroll.

The agreement would be only the third negotiated between employers and unions under "social protocol" provisions in the EU's 1991 Maastricht treaty. The others covered part-time work and parental leave.

The protocol encourages the "social partners" to reach agreements on work-related issues that they can then ask governments to adopt into law.

Employers and unions began talks on fixed-term contracts last year at the prompting of the European Commission, the EU's executive.

The fixed-term agreement is less prescriptive than some employers feared. It leaves much of the detailed implementation of laws to member states, thus respecting the growing trend in the EU towards subsidiarity, the principle that decision-making be devolved to the lowest appropriate level.

To prevent abuses arising from successive continuing fixed-term contracts, the agreement suggests member states adopt one or more of three options.

National laws, it suggests, should require "objective reasons" to be given justifying the renewal of contracts, stipulate maximum durations for contracts or limit the number of contract renewals.

BUSINESS NEWS

SAP shares rise on hopes of growth in Asian markets

Shares in SAP, the German software group, rose 5.7 per cent after it said it hoped it could grow in Asia this year. Group sales rose by 41 per cent to DM9.47bn (£4.33bn, \$5bn) in 1998 and net profit rose 14 per cent to DM1.05bn. European companies, Page 19

Microsoft, the world's largest software group, made its second move into the European cable television industry this week when it agreed to buy a \$300m stake in United Pan-European Communications. Companies and Markets, Page 15

The French government launched the partial privatisation of Air France, indicating that more than 17 per cent of the national carrier's capital would be floated in coming weeks. European companies, Page 19

Compaq Computer, the US personal computer manufacturer, plans to become the leader in internet services. Compaq said it would spin off AltaVista, the internet search service. Companies and Markets, Page 15; Lex, Page 12; IBM in 2-for-1 stock split, Page 16

Usinor, the French steel maker, is expected today to announce its biggest restructuring for more than a decade. European companies, Page 19

The US Food and Drug Administration has told Johnson & Johnson and Unilever they can launch new types of spread that reduce cholesterol in the bloodstream. Companies and Markets, Page 15

Raytheon, the US aerospace and engineering group, met market expectations with a 51 per cent rise in net income to \$369m in the fourth quarter of 1998. US companies, Page 16

BMW, the German automotive group, is to suspend production of two Land Rover models at its Rover offshoot in the UK because of a drop in demand. UK, Page 8

Bakrie & Brothers, the listed arm of Indonesia's diversified Bakrie Group, has agreed in principle with creditors to swap up to \$1.15bn in debt for equity. Companies and Markets, Page 15

Anglo American, the South African mining group, said it did not expect to obtain its London stock market listing until late May. UK companies, Page 20

Euro Prices

A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 21

US to reinstate trade provisions

By Deborah McGregor in Washington

The US is to reinstate its controversial "Super 301" trade provisions aimed at highlighting unfair trading practices, Charles Barshefsky, the US trade representative announced yesterday.

Ms Barshefsky said renewal of Super 301 authority would enhance the US's ability to enforce trade agreements and "promote US interests around the world".

Under Super 301 the US publishes an annual list of trading partners engaged in unfair trading practices, putting targeted countries under pressure to alter their behaviour.

The decision comes at a sensitive moment, as the US seeks

US to reinstate trade provisions

By Deborah McGregor in Washington

authorisation from the World Trade Organisation to retaliate against the European Union for alleged failure to comply with WTO rulings on its banana import arrangements.

Trade tensions are also growing between the US and Japan, and there are mounting complaints from the US steel industry about alleged dumping of steel imports in the domestic market.

Renewal of Super 301, which expired in 1997, adds to President Bill Clinton's trade arsenal, and will help demonstrate to Congress that his administration intends to stand up for US interests.

That may improve his chances of winning approval for fast-track trade negotiating authority.

Ms Barshefsky also announced the renewal of Title VII authority, which allows the US trade representative to address discriminatory government procurement practices.

"Given the state of the world economy, it is now more important than ever that we maintain these tools," Ms Barshefsky said.

In the past, Super 301 has been viewed with distaste by America's trading partners. It requires mandatory investigations of any nation that is declared a "pattern" of trade-distorting practices and non-tariff trade barriers.

"Super 301 can be more effective as a threat than anything else," said former US trade official Bill Markin, now a vice-president of Strategic Planning.

Korea, for example, has taken direct steps in the past to avoid being named on the annual Super 301 list. When named, it has negotiated to curtail its exports and bring its trade practices into line with US demands.

"Last year's successful conclusion of a market access agreement for motor vehicles with Korea demonstrated the effectiveness of Super 301," said Ms Barshefsky.

The US claims that in the past Super 301 has put pressure on Japan to dismantle trade barriers.

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WORLD MARKETS

STOCK MARKET INDICES		
New York	1,258.23	(-22.91)
Dow Jones Ind Av	2,407.10	(-57.78)
Nasdaq Composite	4,071.28	(-20.49)
Europe and Far East	4,998.80	(-4.38)
DAX	5,895.7	(-4.8)
FTSE 100	1,187.54	(-11.08)
FTSE Europe 300	1,385.5	(-17.53)
Nikkei	14,382.01	(-79.5)
US RATES		
Federal Funds	4.75%	(-0.01%)
9-month Treas Bill Yld	4.45%	(-0.01%)
Long Bond	10.2%	(-0.01%)
Yield	5.11%	(-0.01%)
OTHER RATES		
UK 3-mo Interbank	5.5%	(-0.01%)
UK 10 yr GR	138.06	(-1.27)
USA Eurodollar	3.5%	(-0.01%)
Germany 10 yr Bund	108.58	(-1.08)
Japan 10 yr JGB	100.57	(-1.00)
NORTH SEA OIL (Angus)	10.55	(-1.08)
Stock Data	510.55	(-11.08)

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Commodity	Price	Change
Oil	18.15	+0.15
Gold	380.00	+2.00
Silver	10.00	+0.05
Platinum	1,200.00	+10.00
Iron Ore	15.00	+0.50
Coal	12.00	+0.20
Wheat	18.00	+0.10
Soybeans	14.00	+0.05
Corn	10.00	+0.02
US Dollar	1.00	+0.00
British Pound	0.65	+0.00
Japanese Yen	110.00	+0.00
Swiss Franc	1.50	+0.00
Canadian Dollar	0.70	+0.00
Australian Dollar	0.75	+0.00
South African Rand	10.00	+0.00
Indian Rupee	45.00	+0.00
Chinese Yuan	8.00	+0.00
Thai Baht	50.00	+0.00
Malaysian Ringgit	3.50	+0.00
Singapore Dollar	1.00	+0.00
Philippine Peso	50.00	+0.00
Indonesian Rupiah	1,500.00	+0.00
Maldivian Rufiyaa	1.00	+0.00
Nepalese Rupee	100.00	+0.00
Pakistani Rupee	100.00	+0.00
Sri Lankan Rupee	100.00	+0.00
Taiwanese Dollar	20.00	+0.00
US Dollar	1.00	+0.00

Boeing's aircraft deliveries rise 87%

By Christopher Parkes in Los Angeles

Boeing's 1998 rollercoaster ride ended on a high with a better-than-expected return to profit in the fourth quarter, as commercial aircraft deliveries rose 87 per cent over 1997's depressed levels.

Boosted by tax credits worth 3 cents a share, earnings of 48 cents, compared with a loss of 51 cents, were well ahead of the average Wall Street prediction of 42 cents a share.

Net income was \$465m, compared with a deficit of \$498m last time when results were hit by a charge of \$97m to cover the costs of ending production of several McDonnell Douglas commercial airliners.

Investors, shaken by last year's sequence of ups and downs, including the company's predictions of reduced profits and production, were unmoved by the news. Boeing stock slipped slightly yesterday morning.

Analysts noted forecasts of commercial jet deliveries for next year had been reduced again from 490 to 480, compared with the 539 said in 1998 and the 620 deliveries expected this year.

However, the effect on earnings was likely to be lessened by a small increase in expected sales

Boeing's aircraft deliveries rise 87%

By Christopher Parkes in Los Angeles

of the 747 jumbo jetliner, its most profitable product.

The company said its stock repurchase programme, launched in the third quarter to prop up its weakened share price, had so far cost \$1.3bn. About 3.5 per cent of the outstanding shares had been bought compared with a target of up to 15 per cent of the total.

Revenues in the commercial aircraft division rose 70 per cent in the quarter to \$1.4bn, and accounted for two-thirds of the group total.

Operating profits from airliners were \$216m, equivalent to 38 per cent of group-wide earnings at this level.

For the year, commercial aircraft made \$62m in operating profits out of a total of \$1.6bn on revenues of \$56bn compared with \$45.5bn in 1997.

The company said commercial division margins had come under pressure. In addition, Airbus Industrie, the European consortium, has stepped up its attack on Boeing's market share.

Boeing said the workforce had been reduced from its 1998 peak of 238,000 to 231,000 by the end of the fourth quarter. With more than 3,000 additional jobs due to go this month, the group expected to shed about 30,000 employees in 1999.

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WORLD NEWS EUROPE

ANTI-BALLISTIC MISSILE TREATY MADELEINE ALBRIGHT RE-STATES COMMITMENT DESPITE PLAN TO RESEARCH NEW DEFENCE SYSTEMS

US seeks to allay Russian fears

By John Thornhill in Moscow and Stephen Fidler in Washington

Madeleine Albright, US secretary of state, yesterday tried to calm Russian fears that the US intended to abandon the Anti-Ballistic Missile (ABM) treaty, saying it remained "central to our whole arms control structure".

research spending on anti-missile technology. Mrs Albright stressed that no deployment of a national missile defence system - assuming it works - could take place until 2005. "I think it is a big mistake if people believe in some form or another that decisions on deployment have been taken," she said at the end of a two-day visit to Moscow.

"Star Wars" system envisaged by President Ronald Reagan in the 1980s - would be made next year. The aim was to counter the threat of missile attacks from "rogue" nations such as North Korea.

Both countries had to consider new security threats, said Mrs Albright

Mr Albright said that although the US remained committed to the ABM treaty, both countries had to consider the new security threats posed by rogue powers with access to rocket technology and to strengthen their defences accordingly.

Russia to take account of the proposed missile defence system. He said either party could withdraw from ABM given six months' notice "if a party concludes it's in its supreme national interest".

EU seeks to ban vehicle bull bars

The European Commission is to propose a ban on built-in bull bars on new cars amid concern that improvements in car safety have benefited passengers at the expense of pedestrians.

intense pressure from Republicans in Congress who argued the US was at risk from missile attack. Several developments over the past few months have led to a shift in the administration's position - beyond the domestic political reasoning of denying the Republicans an election year campaign issue.

In August, North Korea launched a test missile, unexpectedly containing three stages, which could theoretically threaten Alaska, Hawaii and parts of continental US.

Vatican changes rules on exorcism

By James Fitz in Rome

The Vatican yesterday revised the Catholic Church's rites to exorcise the devil for the first time in four centuries, but it warned that belief in the devil's existence was essential for the faith.

Unveiling a new 84-page red leather-bound book, a senior Vatican official underlined Pope John Paul's belief that the devil is very much in the world and, in the pontiff's view, "a cosmic liar and murderer".

Cardinal Jorge Medina Estvez, who presented the revised rites at a Vatican press conference, said: "The existence of the devil isn't an opinion, something to take or leave as you wish. Anyone who says he doesn't exist wouldn't have the fullness of the Catholic faith."

The cardinal said the devil's forces come through widespread acceptance of "lies and deceit, idolising money and idolising sex".

Under Catholic teaching, bishops may carry out the exorcism rite themselves or nominate one priest in their dioceses to do so. According to senior Church figures quoted in La Repubblica newspaper at the weekend, the number of Catholics who are exposed to some form of diabolical force is about five or six in every 1,000.

Even with yesterday's changes, the rite of exorcism remains essentially the same. It involves making the sign of the cross, laying on of hands, sprinkling holy water and ordering the devil to leave the possessed person. However, the new rites make some amendments to the 21 rules for exorcism drawn up by Camillo Borghese, later Paul VI, in 1964. The revisions, which have been worked out for years by a group of international theologians and liturgical scholars, take some account of the evolution of psychiatric medicine.

In particular, they warn exorcists against attempting to heal people who are, in reality, mentally ill. Exorcists must "not think possessed by a demon someone who is suffering from some illness, above all psychic, or who is 'the victim of one's own imagination'".



France's first nuclear-powered aircraft carrier Charles de Gaulle leaves the port of Brest for its first sea trials yesterday, accompanied by seven tug boats. The Charles de Gaulle took 10 years to build at a cost of almost FF250bn (£2bn, \$3.5bn) and will become the flagship of the French navy when it enters service at the end of 1999.

COALITION DISPUTE EU COMMISSIONER IN CONTROVERSY OVER ALLEGED DONATIONS

Political gift claim rocks Dublin

By John Murray Brown in Dublin

A dispute over alleged political donations to Padraig Flynn, Ireland's European commissioner, is threatening the stability of Ireland's 18-month-old minority coalition, with Bertie Ahern, the prime minister, under pressure to clarify his links with the businessman behind the claims.

Relations between Mr Ahern's populist Fianna Fail party and his coalition partners, the right of centre Progressive Democrats (PD), worsened yesterday when Mr Ahern admitted holding three meetings with Tom Gilmarin, a London-based Irish-born property developer. On Monday Mr Ahern said he could recall only one such meeting.

Mr Gilmarin says there were four meetings at which

he told Mr Ahern of the donation of 1250,000 (€85,480, \$73,500) to Mr Flynn when Mr Flynn was a Fianna Fail minister. Mr Flynn has said he did not take any "money for favours".

The row took off after Mr Flynn's denials on a Dublin television chat show so incensed Mr Gilmarin that he reversed his earlier decision and said he would give evidence to a government-appointed tribunal into planning irregularities.

John Bruton, the conservative Fine Gael leader, and Ruairi Quinn, Irish Labour party leader, said yesterday they might call for a vote of no confidence in Mr Ahern, which could trigger an early general election. Fine Gael has formally demanded the suspension of normal Dail business today to discuss the allegations.

Before yesterday's



Fionna Fail claims

acknowledgement by Mr Ahern, Mary Harney, the PD leader, had offered him only qualified support, commenting she had no reason "as of now" to disbelieve his version of events. But Ms Harney's party members face a quandary. They are anxious to distance themselves from the sleaze claims targeted at

Fianna Fail, yet aware that if they pull out of government, with only four Dail seats they may not survive as a party.

The more immediate casualty could be Mr Flynn, the social affairs commissioner. Even before this latest row, the loquacious former Mayo county councillor, seemed unlikely to be nominated by the Irish government for another term. But such is the anger at his cavalier mis-handling of the scandal that some Fianna Fail deputies were yesterday demanding his immediate resignation.

The allegations have set back efforts to draw a line under Fianna Fail's chequered past, usually associated with Charles Haughey, the former prime minister, who faces investigations into his tax affairs and his acceptance of a 1EL2m gift from a Dublin stores owner.

Bonn sets up EU financing timetable

By Quentin Peel and Ralph Atkins in Bonn

The German government has drawn up a hectic timetable and negotiating strategy to reach agreement by the end of March on the future financing of the European Union.

It will involve no fewer than two summit meetings and seven alternative ways of reducing its own heavy budget contributions.

Any hopes of reaching a deal by the deadline will require big concessions by all 15 member states, according to senior German officials working on organising the programme for their country's six-month EU presidency.

Other EU diplomats believe their chances of success are no better than 50:50, and fear that failure in March could delay any agreement beyond the end of 1999, when the present legal basis for EU financing officially expires.

The new red-green coal-

ition in Bonn is adamant that any solution must involve a cut in the own DM22bn (£11.2bn, \$13bn) burden of net contributions, as well as a freeze on the growth of all EU spending up to 2006.

It is also determined to force through a real reduction in spending on the common agricultural policy, which consumes almost half the Brussels budget.

The drive for a compromise will bring great political pressure to bear on Britain to agree to renegotiate its existing budget rebate of about €3bn (\$3.5bn) a year.

Senior political advisers in Bonn say that Gerhard Schröder, the German chancellor, is ready to blame the UK for failure if the British government refuses to contemplate any change in the present system.

At the same time, France would be hit hardest by proposed changes in farm policy, while Spain is being asked to accept large cuts in the "cohesion" funds it

needs to catch up other economies in the euro-zone.

The latest proposals drawn up in Bonn would also hit Italy, which has hitherto escaped relatively lightly in attempts at fairer sharing of the EU financing burden.

Germany is suggesting scrapping budget contributions based on value-added tax (VAT) and linking contributions more directly to gross national product - a change which would hit Italy hardest, followed by Belgium, Denmark and Finland.

"We want a compromise that is workable," says Günther Verheugen, Germany's European affairs minister, who is involved in the talks.

"But we are under domestic pressure. Any solution is not automatically a good solution."

Germany is suggesting seven alternative ways of reducing its excessive net contributions, as well as those of Austria, the Netherlands and Sweden.

As outlined by officials in Bonn, the suggestions would require all member states to make concessions.

They include: real stabilisation of farm spending at the 1999 budget level; spending on structural funds not to increase above the annual average of 1994-99; a cap on net contributions at a specific level - say 1.3 or 1.4 per cent of gross national product; and abolition or renegotiation of the UK rebate.

Also included would be the scrapping of cohesion funds for countries now in the euro-zone; co-financing of part of the farm budget by national capitals; scrapping the VAT-based part of national contributions to the EU budget in favour of the fairer GNP-based, and allocating regional funds purely on the basis of regional per capita incomes.

The problem for Germany is that its own determination to reduce its net contributions could well be the main factor complicating the negotiations on the whole finan-

cial package, known as Agenda 2000. But Bonn insists there is understanding for its position.

"Everything is still on the table," Mr Verheugen said. "Co-financing meets real resistance from the French. It is not only President Chirac. But we are still talking. We are also talking to the UK about the rebate."

"If we say it must be dealt with in isolation, we get a flat No. But if we talk about the whole package, and if the whole package eliminates reasons for the rebate, we can perhaps talk about it."

To push through the package, the German government is proposing a week-long farm ministers' council at the end of February, followed immediately by an informal summit of EU heads of state and government at the Petersberg state guest house outside Bonn.

Finance and foreign ministers will meet again in early March, with a final deal at the end of the month.

NEWS DIGEST

NATO TO ISSUE WARNING TO SERBS

West may force Kosovo combatants into talks

The major powers were reported yesterday to be planning to force Yugoslavia and the Kosovo Albanians to open direct peace talks within 10 days or face Nato military action - but both sides responded coldly.

Western diplomats said foreign ministers of the six-nation Contact Group would meet in Paris on Friday to issue a virtual summons to negotiate on a plan for interim self-rule in the Serbian province of Kosovo, once Nato has sent a fresh warning to President Slobodan Milosevic of Yugoslavia, due today.

The aim is to hold continuous face-to-face negotiations, probably in Vienna, mediated by the US envoy, Christopher Hill, the European Union Kosovo emissary, Wolfgang Petritsch, and possibly Russia's deputy foreign minister, Alexander Avdeyev.

However, the Yugoslav deputy prime minister, Vuk Draskovic, said he saw no point in the western plan for direct peace and said the international community should emphasise that Kosovo province was part of Serbia.

In Pristina, Albanian leaders, including those representing separatist guerrillas, said they would not take part in talks on the province's future until Serbian forces stopped attacking their people. Reuters, London

INTERNATIONAL OLYMPIC COMMITTEE

Switzerland confirms tax break

Switzerland is pressing ahead with plans to give the International Olympic Committee a valuable tax break in order not to damage its chances of winning the 2006 winter games in the Swiss city of Sion. The economy and taxation committee of the lower house of parliament has voted by a majority of 12 to 11 to make the IOC and the Olympic Museum exempt from a new value-added tax.

Switzerland is home to many international, non-profit organisations that have traditionally paid no tax. The IOC has been free from direct government taxation since 1981. However, the timing of the Swiss decision is embarrassing since it comes only days after the executive board of the IOC tried to expel six of its members for accepting favours from Salt Lake City, which will host the 2002 winter Olympics.

Sion is vying with Kieganfurt (Austria), Zakopane (Poland), Helsinki (Finland), Poprad-Tatry (Slovakia) and Turin (Italy) for the 2006 winter games.

Kasper Villiger, Swiss finance minister, is understood to have been against exempting the IOC from the tax but was overruled by other ministers. The plan has already been approved by the upper house of the Swiss Parliament but still needs the final approval of the lower house.

Adolf Ogi, Swiss sports minister and a former ski champion, said if Switzerland had reneged on the decision to exempt the IOC from VAT, it would have thrown into question Sion's candidature. William Hall, Zurich

WORLD BANK LOAN

Romania pressed on reforms

The World Bank yesterday imposed conditions on the granting of a \$300m structural adjustment loan to Romania to help restructure its weak financial and banking sector, requiring that the country continue on the path of economic reform.

Referring to Romania's previous non-compliance with World Bank loan accords, Andrew Vorkink, the Bank's Romania director, said agreements must be adhered to and followed through. Mr Vorkink was speaking at the end of a six-day visit to Bucharest.

Both the World Bank and the International Monetary Fund are making conditional fresh credits to Romania after the passing of this year's draft budget, planned to run a deficit equal to 2 per cent of gross domestic product, and the re-capitalisation of Bancorex, a state bank.

Unless Romania can secure fresh loans, it risks defaulting on its foreign debt. This year, the country faces foreign debt service payments of \$2.9bn. Official foreign reserves stand at \$1.8bn. Joe Cook, Bucharest

CZECH ECONOMY

Growth forecast slashed

The Czech finance ministry has slashed its forecast for economic growth because the country's recession is proving longer and deeper than expected.

The ministry has changed its growth forecast for 1999 from a 1.8 per cent increase to a decline of 0.2 per cent. It has also revised its prediction for average inflation down to 5.1 per cent from 7.8 per cent, and raised its unemployment forecast to 9.5 per cent from 8.7 per cent.

The Czech Republic has already experienced three quarters of negative growth and the finance ministry expects last year's overall decline to total 2.6 per cent.

The change in the forecasts casts doubt on whether the government will keep to its fiscal deficit target of K631bn (\$990m) this year, around 1.6 per cent of gross domestic product. Robert Anderson, Prague

PORTUGUESE WAGES

Public sector pay rise agreed

Portugal's Socialist government agreed yesterday to a 3 per cent wage increase for public sector workers, partly to compensate for inflation in 1998, which was substantially higher than the official target.

The agreement, which is also traditionally used as a benchmark for private sector pay deals, envisages an increase in real wages of 1 per cent, given the government's 1999 inflation forecast of 2.0 per cent. António Guterres, prime minister, had promised public sector workers that any loss in real wage gains because of higher than forecast inflation last year would be made up in 1999.

Unions agreed to a 2.75 per cent wage increase last year, after annual average inflation rose to 2.8 per cent, one of the highest levels in the euro-zone, after a forecast of 2.0 per cent.

Some analysts warned that Mr Guterres was setting a dangerous precedent of indexing pay to inflation. But a senior bank economist said yesterday that the 3 per cent increase was "tolerable" in an election year. A general election is due in October. Peter Wise, Lisbon

UKRAINE DEBT

IMF holds back loan tranche

An International Monetary Fund mission left Ukraine yesterday without recommending disbursement of the monthly tranche of a \$2.2bn, three-year loan after Ukraine failed for the third month in succession to meet many of the programme's conditions. Mohammed Shudman-Valev, leader of the mission, said, however, that negotiations would resume again within a few days.

Without the loan, Ukraine may default on large debt service repayments. Charles Clover, Kiev

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Handwritten Arabic text: "سنة من العمل"

Turkey seeks to win IMF praise and support

By Layla Boulton in Istanbul

Turkey will today begin efforts to persuade the International Monetary Fund that it deserves praise and pledges of financial support for continuing its economic reforms in the run-up to a general election on April 18. A delegation from the Fund is arriving today to begin an assessment of the

country's progress in carrying out an 18-month reform programme agreed last year. Bulent Ecevit, the centre-left caretaker prime minister, recently called for IMF help to ease the burden of \$24bn in debt-servicing obligations due during the first four months of this year. Mr Ecevit has promised to avoid Turkey's tradition of pre-election spending sprees.

He and the two centre-right parties that support his minority government are trying to agree to push through parliament next week a budget for 1999 and a law to strengthen supervision of the banking system. Officials are also due to consider how they can restart a privatisation process stalled late last year by corruption scandals, which

brought down the previous government. Ajay Chhibber, World Bank director in Ankara, said Turkey had by and large met inflation and fiscal targets agreed with the IMF for last year and deserved international help if it continued efforts to stabilise the economy. The Bank for its part is preparing a loan to provide

working capital for otherwise strong Turkish exporters hit by high real interest rates. Erkut Yucaoglu, chairman of Tusiad, the Turkish business confederation, described high real interest rates - which recently shot up to 50 per cent - as "the only thing that has gone astray" in Turkey's stabilisation efforts. Like other Turkish busi-

nessmen, he argued that verbal support boosting the confidence of the international financial community in Turkey was the biggest contribution that could be expected from the Fund before an election. This could lower the cost of borrowing and improve Turkey's access to cheaper foreign loans. "Sentiment is very impor-

tant," agreed a spokesman for Akbank, one of the country's biggest private sector banks. "The Turkish economy so far has dealt with the global crisis very well, so any positive signal coming from the international community, especially the IMF, is very important for the Turkish economy and its access to international funds."

Court boost for parallel vehicle importers

By John Griffiths

The Belgian sales subsidiaries of four Japanese motorcycle manufacturers have been fined a total of BFR45.8m (£1.1m, \$1.3m) by the European Court of Justice for anti-competitive practices hindering the sale of their machines by parallel importers.

The Belgian sales companies of Honda, Suzuki, Yamaha and Kawasaki were found guilty of a number of practices making it difficult for parallel importers, seeking to sell new motorcycles obtained through non-franchised channels for up to one-third less than the manufacturers' outlets, to obtain homologation certificates. Such certificates confirm the machines' compliance with Belgian vehicle legislation.

The court's decision, in a little publicised judgment last week, could help ease the case of unlocal car importers across Europe fighting to sell Japanese and other cars at below the prices set by manufacturers.

Motorcycle and car makers have become increasingly concerned at the activities of the parallel importers across Europe. Prices of new motorcycles have plunged by about 30 per cent as manufacturers have increasingly been forced to match prices for "grey" imports. Grey imports already account for one quarter or more of total motorcycle sales in some EU markets such as the UK. Honda last month started legal proceedings against parallel motorcycle traders in the UK, alleging that the dealers' activities infringe its trademarks. An initial hearing is expected in the High Court next month.

Honda is invoking recent precedents set by EU rulings favouring trademark owners Levi's jeans and Silhouette sunglasses in cases against supermarkets.

Aznar hopes for progress on long march to the centre

Spain's prime minister is seeking to modernise his party while still retaining its conservative policies, writes David White

Leading a centre-right government in western Europe is a lonely experience these days. Shortly before José María Aznar led his Popular party (PP) to victory in Spain three years ago, Portugal went the other way, electing a Socialist administration after a decade of centre-right rule. Since then Italy, Britain, France and Germany have also chosen governments of the left.

But the Spanish prime minister has a plan to recast the image of his conservative party, mirroring the UK Labour party's redesign under Tony Blair and aimed at breaking the moulds of traditional perceptions about right and left.

At a party congress this weekend, the first since he won power almost three years ago, he wants to give the PP a younger, softer profile, projecting it as a pragmatic, user-friendly party.

Mr Aznar has established surprisingly good relations with Mr Blair, an almost exact contemporary. And Spain has found some common ground with the UK in the European Union, notably on labour policy.

In the European Christian Democrat grouping, the European People's party, set to meet in Brussels next week, he has taken over the mantle of Helmut Kohl, the former German chancellor, as chief luminary.

His government rides high on solid economic growth, increased employment, low inflation and general confidence about Spain's future in the Europe of the euro. The PP has pulled ahead in the polls. The Socialists, who have not yet regrouped into an effective opposition, trail between four and nine points since the 1996 elections.

Re-election next year now appears easily within the PP's reach. But the party still faces a barrier to its electoral potential: a lingering tendency of many Spaniards to associate it with the old Spanish right and the post-civil war dictatorship, which ended only with General Franco's death in 1975.

Mr Aznar is looking for a crucial breakthrough to achieve the absolute parliamentary majority he now lacks, or at least come close enough to be able to do without regionalist allies.

The centrist platform has more to do with marketing than changes in substance. One senior government planner said there was no proposal to alter course on existing economic or social policies. "Centrism is not revolution," he declared. It was, however, "a good political message".

Mr Aznar began the changes last summer when he dropped a distinctly high-handed cabinet spokesman. At the PP congress, he

wants a wide-reaching generational shift, taking a lesson from the experience of the Socialists, who failed to renew their hierarchy during 18 years in government.

He has already named 41-year-old Javier Arenas, who as labour minister got on rather better with unions than with employers' leaders, to run the party full-time as secretary-general. Like several other top Aznar aides, Mr Arenas came to the PP from the defunct Union of the Democratic Centre, the centrist party that governed during Spain's early post-Franco transition.

The secretary-general for the last 10 years - since shortly before Mr Aznar became leader - was Francisco Alvarez-Cascos, a bull-like figure who has played the role of strongman man. He remains deputy prime minister but has been discredited by an embarrassing mess in his electoral bailiwick, the northern Asturias region. Falling out with the regional president, he tried to force him from office and ended by forcing him out of the party instead, provoking the formation of yet another regionalist party and depriving the PP of its relative majority in the regional parliament.

However, there was never any question about Mr Alvarez-Cascos' loyalty to Mr Aznar. The PP is not a



José María Aznar (right) with Tony Blair last year. Aznar is hoping to mirror the UK Labour party's redesign under Blair

party open to rival factions. The quietly determined Mr Aznar has it ever more under his thumb, talking increasingly of its ambitions in the first person singular.

Many saw his way of ordering the changes as Olympian. He named not only the PP secretary-general, to be chosen by the party this weekend, but also the new president of the senate. The PP's majority in the upper house guarantees that its candidate wins but it is still supposed to be an elected post.

Until last week, Mr Aznar

doggedly kept the same cabinet team for 32 months, a record since Franco's times. The changes, when they came, were minor, dictated mainly by electoral considerations. More new faces are expected in the party.

The aim of making "a moderate party of the centre" goes back to Mr Aznar's arrival as PP leader in 1990. "This voyage to the centre is longer than Mao's long march," Felipe González, former Socialist prime minister, commented sarcastically. "Where could they be coming from to take so long get-

ting to the centre?" Unlike the Socialists on the left, the PP occupies a whole spectrum from the centre to the right, with no serious far-right competitors other than isolated rabble-rousers. This hegemony, shared only with conservative regionalist parties, makes it vulnerable to attack. Mr Aznar's appearance on a Barcelona campus this month attracted a "Fascists out" protest, countered by heavy-handed police action that led the university to declare the prime minister *persona non grata*.

Although the PP's top echelons have been modernised, there are still traces of the old guard at town and village level. The PP-controlled council of Santander, a regional capital, drew attention recently by refusing to change the name of the square outside the city hall. It remains, in honour of Franco, *Plaza del Generalísimo*. None of this is likely to be visible at the party congress, however. The government and its policies may show little change, but this is the occasion for the launch of Aznar Mark II.

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ASIA-PACIFIC

VENTURE CAPITAL CALL PLAN TO CREATE WORLD-CLASS HIGH-TECH ENCLAVE HELD UP BY LACK OF FINANCE

Beijing in 'Silicon Valley' push

By James Kyngs in Beijing

The authorities running China's "Silicon Valley" are preparing to seek foreign venture capital to realise plans to create one of the world's leading high-tech enclaves in Beijing.

The development plan for the Haidian experimental high-technology zone envisages that the total revenues of companies within the zone will increase from Rmb45bn (\$6.8bn) last year to Rmb300bn in 2010.

Officials said that to achieve this, investments of at least Rmb100bn would be

needed by 2010. "We are welcoming foreign venture capital companies and also trying to increase the role of domestic venture capital firms," said Wang Sihong, director of Haidian's administration commission.

"The [central] government has realised there is a problem of insufficient venture capital," she added. Ms Wang said that authorities would soon approve the setting-up of a Sino-foreign venture capital company, and other approvals would follow.

Several investments have already been made in Hai-

dian companies by foreign venture capitalists, some from Silicon Valley in California, company executives said. But inertia and insufficient skills among China's big four state-run banks have meant that many promising young companies have been unable to raise finance.

"The state banks will not lend more than the collateral value of your real estate," said Wang Zhidong, president of Sina Inc, a software and Internet company. "They have little ability to assess intellectual value."

Supplied by graduates from Beijing and Qinghua

universities, the Haidian area buzzes with intellectual energy. Some companies, such as Legend, the leading mainland Chinese computer company, have grown rapidly from humble origins in Haidian and are now big enough to secure lending from Chinese banks.

But the number of smaller companies chronically short of capital is large. Kexing, a biotechnology company with about 50 per cent of the domestic interferon drug market, had to sell a majority stake to various foreign and local venture capital interests because it could

not raise funds by borrowing domestically. It was still searching for investors, said Pan Alhua, Kexing's managing director.

However, intellectual property protection in China is poor and opaque company structures sometimes make it difficult to ascertain ownership interests. Another problem has been that official permission for stock market listings has overwhelmingly favoured China's large state companies rather than small private enterprises. Gaining permission to list abroad can also be problematic.

Foreign banks look to reduced role in a bruised China

James Harding considers the knock-on effect of a growing credit squeeze

As the tide of foreign credit to Chinese borrowers has ebbed since the collapse of a high-profile investment company last year, several other such investment vehicles have been left stranded.

In recent days there have been signs that the effects of the credit squeeze are spreading. Another small "Ilic" - the international trust and investment corporations that serve as the investment arms of China's provinces and other authorities - was confirmed in default on its foreign debt last week. And the investment company for Fujian province told its bankers it would have to defer principal repayments on a \$80m loan.

More prominent Chinese borrowers - State Development Bank and China International Trust and Investment Corporation (Citic) - have put plans for international bond issues on hold. Officials at some of the regional commercial banks are saying they are feeling the pinch from an international lending community in retreat from China risk.

Now analysts have begun to ask whether the drain on liquidity is set to leave a range of Chinese companies and financial institutions on the rocks, and if so, which ones.

Foreign investor confidence in China has deteriorated significantly since the abrupt closure in October of Guangdong International Trust and Investment Corporation (Gitic), a prominent Chinese borrower shut down

on Beijing's orders despite backing from the provincial government.

"Beijing was correct in its intentions to rectify the Ilics and the financial sector," says a banker at Citic Industrial Bank, the bank owned by the first and largest of the Ilics, Citic. "But the measures have been too strong. There is a sense of psychological panic spreading among the foreign banks."

The mood among investors is expected to be influenced by a statement, due to be made today by Dai Xianglong, the central bank governor, in which he will outline plans for the restructuring of the remaining 239 trust and investment companies.

A foreign banker in Shanghai says: "Every Chinese organisation that wants to raise funds is going to find itself tainted by association if not connection with Gitic."

However, the impact is likely to be uneven and overall limited.

China's financial system is largely insulated from overseas sentiment. The currency, the renminbi, is not freely convertible. The country's \$145bn in foreign exchange reserves more or less cover total foreign borrowings, which by recent projections based on China's central bank figures were about \$143bn at the end of 1998. International loans account for only a tiny fraction of total credit in a country where the big four banks do about 90 per cent of the lending business.

The foreign credit squeeze

China: looking for balance



is, therefore, causing some pain, but it is a question of degree.

The Ilics, the bottom band of China's overseas borrowers, are in the most acute discomfort, in some cases, the withdrawal of international liquidity is likely to prove fatal.

Under Mr Dai's plan to be announced today, some of the Ilics may be relaunched as securities dealers, insurance agents or asset management companies. But more closures also look likely. Yuan Gangming, director of the macroeconomic research centre at the Chinese Academy of Social Sciences, the government think-tank, was quoted over the weekend saying: "As the first trust firm to have filed for bankruptcy, Gitic's example might create a precedent for the handling of other insolvent trust firms."

Some other non-bank financial operators a notch up the ladder of China's foreign borrowers, such as provincial government window

companies, infrastructure projects with Ilic-guaranteed or provincial government-guaranteed debts and joint venture leasing companies, are also reported to be struggling to meet foreign debt payments.

The mismatch of maturities at provincial agencies, which have borrowed in the short-term to fund long-term investments such as property and infrastructure, has left them vulnerable. "Every second-tier financial institution is left exposed," says a foreign lender in Shanghai.

The next band up, the regional development and new commercial banks, are also feeling the strain, but they say it is one they can withstand. Even the "big four" state-owned commercial banks, which may be technically insolvent but still account for about 90 per cent of banking business in China, are not completely immune. An official at Bank of China,

the state-owned bank with the largest foreign operations, says: "We have also been affected by the Gitic problem. If we tried to come to the market to issue a loan, it would be more difficult in terms of the pricing."

Foreign banks operating in China are therefore likely to gravitate towards foreign borrowers operating in the country.

"It is going to be a buyers' market," says one European banker, ironically observing that as foreign lenders shrink away from Chinese entities, foreign-invested companies in China will become even more keenly sought-after customers both by international banks and Chinese financial institutions with growing foreign currency deposits to lend.

He says: "Foreign banks are going to find themselves able to do less lending business in China. Many of us will end up doing advisory work."

Pakistan, India set for fresh N-talks

By Peter Montagnon, Asia Editor, in Washington

India and Pakistan will have to continue to pay a price for non-adherence to the global nuclear Non-Proliferation Treaty (NPT), even if they can reach agreement with the US on the lifting of sanctions imposed after their tests last May, according to analysts in the US.

The problem of meeting any agreement with the NPT remains a central issue as the eighth round of talks begins with India in Delhi on Friday, followed by a session with Pakistan in Islamabad at the start of next week.

Strobe Talbott, US deputy secretary of state, who is to lead the US delegation, would say only that the issues surrounding the sanctions remained tough and would require patience to resolve. "We and our Indian and Pakistani interlocutors are going to have to keep working on it," he declared. He has previously warned of the dangers of an agreement that would inadvertently provide an incentive for other countries to "blast their way into the ranks of the nuclear weapons states".

Analysts said this meant India and Pakistan could not be seen to be rewarded for their nuclear tests by elevation to the formal status of nuclear powers alongside the US, Russia, China, the UK and France.

Were this to happen, other countries would quickly try to follow suit, and the NPT could unravel. Nor are India and Pakistan ever likely to agree to renounce nuclear weapons in the style of South Africa and join the NPT as non-nuclear states entitled to the benefit of civilian technology transfer.

A crucial consideration for the US position is the desire not to establish a half-way house in which *de facto* nuclear states still have the benefits that accrue to non-nuclear ones. This consideration has complicated the talks. The US is still seeking progress in four basic areas - commitment to refrain from testing and deployment of weapons, an end to production of fissile material, and introduction of strategic weapons controls - as well as bilateral discussions to try to resolve their disputes over Kashmir.

Progress has been made on testing, with both governments having indicated their willingness to sign the Comprehensive Test Ban Treaty, and on export controls. But less advance has been made on fissile material and missile development.

Back to basics in Vietnam

By Jonathan Birchall in Hanoi

The Vietnamese Communist party has begun a meeting in Hanoi which is expected to lead to a renewed campaign against corruption and to a leadership reshuffle.

Earlier this month, Le Kha Phieu, who took over as party general secretary just a year ago, said he hoped the coming lunar Year of the Cat would "bring a cat skilled in catching big and giant rats". He called on party and government leaders to combat the triple "plagues" of bureaucracy, corruption and moral degradation.

Second-tier leadership changes to be decided at the deliberations of the 170-member central committee are widely predicted to include Le Minh Huong, minister of public security, taking over as foreign minister from Nguyen Manh Cam, deputy prime minister. Despite his security background, Mr Huong served in Vietnamese

embassies in Europe and Japan.

Western diplomats say they also expect the anti-corruption drive to lead to the discreet removal of a number of government ministers, including Tran Xuan Gia, minister of planning and investment, whose ministry is responsible for licensing foreign invested projects.

Elsewhere, however, there has been increasing conservatism on political and economic issues and a return to "basic Vietnamese values". Earlier this month, the party expelled its most outspoken critic, General Tran Do, a former central committee member, after he called for fundamental political reforms in a series of open letters to the leadership.

The Asian crisis has further reduced Vietnam's enthusiasm for radical economic reforms. One diplomat said that few people were now likely to call for greater market openness.

INTERVIEW LI KA-SHING

HK urged to resume land sales

By Louise Lucas and Rahul Jacob in Hong Kong

Li Ka-shing, one of Hong Kong's biggest property developers, has warned that a continued freeze on government land sales will further erode the territory's competitiveness.

Mr Li's comments, in an interview with the FT, come as the government is deciding whether or not to resume land sales. It introduced a nine-month moratorium last year as part of efforts to stimulate an ailing economy. The government owns and controls the supply of undeveloped land.

Property developers, particularly those with large land banks which benefit from the move to stem supply, have been mixed in their support of a resumption of land sales. Those most in favour are the small to mid-sized developers, who feel they have been squeezed out by the bigger players.

Mr Li said he fully supported

resumption. "Over the past few months, the residential market has already rebounded some 15 per cent from the bottom. If the government does not resume land sales and property prices continue to climb, it will further affect Hong Kong's competitiveness," Mr Li said.

"Our support for the resumption of land sales does not mean we are short of land supply. Over the past year we have made many new land investments, about equivalent to the square footage that we have sold," he said.

The moratorium on land sales followed a sharp plunge in property prices, which are now around half the levels at their peak in the summer of 1997, but remain high relative to other cities such as New York and London.

Part of this has been due to the restrictive land supply policy agreed by Britain and Beijing under the arrange-



Li Ka-shing

ments for the return of Hong Kong to Chinese sovereignty. "The government's land policy created a property bubble over the years, and the sudden bursting of that bubble after such a long build-up has had repercussions on our overall economic recovery," said Mr Li.

Mr Li's support for a resumption in land sales places him in the same camp as the Democratic party, some of whose members he has recently clashed with over comments on his business *modus operandi*. Complaints from politicians over his decision to sue defaulting home buyers, and vociferous criticism over his company's successful bid for a plot of land at a sharply lower than expected price, prompted Mr Li to scotch a huge investment, citing a less harmonious political climate.

But Mr Li defended his decision to enforce promises made by contract. In doing so, he said, he was protecting the interests of minority shareholders and the 80 per cent of buyers who honoured their commitments. "We will act in a fair, reasonable and legal manner. In particular circumstances if individuals have extreme financial difficulties then special consideration will be given."

NEWS DIGEST

VOTE-RIGGING CHARGES

Sri Lankan ruling party captures vital council

Sri Lanka's ruling party yesterday captured a vital local council amid allegations of large-scale vote-rigging and violence. Dayananda Dissanayake, elections commissioner, said nine ballot boxes were either stolen or destroyed while in about 25 per cent of polling booths ballot boxes had been "stuffed".

"We have taken away the ballots that were stuffed by armed groups," Mr Dissanayake said while announcing that the nationally ruling People's Alliance had won 30 seats in the 52-member North-Western Provincial Council. The opposition United National Party (UNP), which won 19 seats, said it completely rejected the results, and that its members would not take their seats in the council, the highest level of local government in the region.

Three seats in the council went to the leftwing JVP, or People's Liberation Front, which accused the government of vote-rigging and demanded fresh elections. D.M. Jayarajna, general secretary of the ruling PA party, said he believed the election was "generally free and fair" and accused the opposition of orchestrating violence. Amal Jayasingha, Colombo

SPUR TO DOMESTIC DEMAND

China eases monetary policy

China has identified deflation as a central economic problem and adopted a looser monetary policy to stimulate domestic demand. The Financial News, the central bank's newspaper, said yesterday while previous "appropriately tight" monetary policy would be kept as a long-term goal, an "appropriate" short-term policy would be adopted to accompany a fiscal stimulus package and boost economic growth.

It defined "appropriate" as meaning money supply would be increased to combat deflation, and that the policy would be altered to suit prevailing conditions rather than being static. The number of non-performing loans should be prevented from increasing, the paper added, indicating that lending should be directed more at infrastructure projects, house purchases, export support, and credit for small and medium enterprises. James Kyngs, Beijing

OLYMPIC SCANDAL

Swimming officials under fire

Australian officials yesterday described as "outrageous" alleged demands for first-class treatment by officials of the International Amateur Swimming Federation (FINA), highlighting the knock-on effect of the scandal engulfing the International Olympic Committee.

During the world swimming championships in Perth in 1991 and 1998, FINA executives had demanded first-class flights, five-star accommodation and chauffeured limousines as part of Perth's host city agreement. Graham Edwards, a former Western Australian sports minister, claimed: "We had to agree to those things in the contracts to get them to stage the championships here," he said. The alleged demands, contained in contracts between FINA and the Perth organising committee, cost the city several hundreds of thousands of dollars, state officials said. Gwen Robinson, Sydney

Tokyo may help to unwind cross shareholdings

By Michiko Nakamoto in Tokyo

Members of Japan's ruling Liberal Democratic party have set up a study group to look into the possibility of the Japanese government buying stocks to smooth the way for the unwinding of corporate cross-shareholdings.

The group, which held its first meeting yesterday, will consider whether there are ways to encourage companies to unwind cross-shareholdings without disrupting the stockmarket, according to Okiharu Yasuoka, one of the leaders of the group and an architect of the LDP's financial reform bills.

The LDP move comes on the heels of a proposal by Keidanren, the business federation, for the government to raise up to ¥30,000bn (\$265bn) in special bonds to buy up to 10 per cent of the market. The LDP has also been mulling the possibility of setting aside ¥20,000bn to boost the sagging property market. These proposals have raised concerns that the government, already burdened by a high level of bond issuance, will find itself further in debt.

"There are some people who are very concerned" about the impact of the closing of books on the stockmarket," Mr Yasuoka said. "There is no question that as the financial year-end approaches, companies will unwind their cross-shareholdings to boost their performance... this is putting pressure on stock prices," he said.

unwind their cross-shareholdings to boost their performance... this is putting pressure on stock prices," he said.

Hirotaro Higuchi, chairman of Japan's Economic Strategy Council, said yesterday that the Japanese economy was headed for a turnaround because the number of reported suicides had declined at the end of 1998, despite an apparent worsening in corporate profitability. Alexandra Harney reports from Tokyo.

"Maybe we have bottomed out. The worst is over," Mr Higuchi told a gathering in Tokyo. He was presenting an interim report on measures to bring Japan out of its longest recession in the post-war period compiled by the Economic Strategy Council, an influential committee of 10 business leaders and academics appointed by Keizo Obuchi, the Japanese prime minister.

The Economic Strategy Council's report did not match Mr Higuchi's optimism, however. The council's report did not expect any growth in Japanese domestic product until fiscal year 2001, and that is only if "sufficient structural reforms" including a reduction in the number of public servants by 20 per cent, and a fundamental reform of the tax, pension and labour systems were implemented.

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INTERNATIONAL

Three big guns to fight Israel election

By Judy Dempsey in Jerusalem

The battlelines in Israel's most fiercely contested election in a generation became clearer yesterday after Yitzhak Mordechai, sacked as defence minister, emerged as leader of the new centre party and Benjamin Netanyahu was re-elected Likud leader.

The two will contest the premiership in the May elections along with Labour's Ehud Barak.

Mr Mordechai defected from Likud to lead the new party, Amnon Lipkin-Shahak, former chief of staff and one of the founders of the party, stepped aside as leader on Monday night.

The former general, 54, may lack the charisma of Mr Netanyahu and the dashing looks of Mr Lipkin-Shahak but the latter believes Mr Mordechai has a better chance of beating Mr Netanyahu.

His appointment has

caused the governing Likud party sufficient concern that its campaign managers have started taking the new party seriously.

Until recently, Likud focused its criticism on Mr Barak. But yesterday, Mr Netanyahu said centrist party leaders, which include Dan Meridor, former Likud finance minister, were "leftists, no different than Labour". In Israeli right-wing parlance, "leftist" is a derogatory term; they are dovish, pro-Palestinian, soft on security.

If that remains Likud's strategy throughout this long campaign, the centrist party will have to persuade Likud voters - its main target - that it is different from Labour and that it is tough on security, a theme Mr Netanyahu will exploit.

The centrist party has already set out its policies on the peace process. Mr Mordechai said Israel would have to cede some territory

on the Golan Heights, captured from Syria in 1967.

But this will prove harder to implement after the Knesset (parliament) yesterday passed a law requiring a national referendum and a parliamentary majority to give up any annexed part of the Golan Heights or Arab east Jerusalem.

Mr Meridor has already told Jewish settlers Israel could not hold on to all West Bank settlements. Such policies may attract voters from the centre and from Labour. But it will also provide fodder for Likud's campaign against "the leftists".

On the secular/religious divide, the centrist party may find itself in a quandary. One of its founders, Roni Milo, former Likud mayor of Tel Aviv, has sharply criticised the power of ultra-Orthodox Jews. Mr Mordechai, in contrast, is a traditional Jew who has close relations with Shas, an ultra-Orthodox party.



Yitzhak Mordechai with colleagues in the Knesset yesterday. His departure from Likud to lead a new centrist party has turned the election into a three-horse race

NEWS DIGEST

'PERSISTING DIFFERENCES OF OPINION'

South Africa's elections chief resigns

The head of South Africa's Independent Electoral Commission resigned yesterday after months of disputes with the government, setting back the country's hopes for a smooth and uncontroversial general election later this year. Johann Kriegler, a 68-year-old former High Court judge who has headed the IEC for nearly six years, complained of "persisting differences of opinion about the role and function of the commission".

He has said the IEC's budget is too small, that government departments do not respect its independence, and that the use of new, bar-coded identity documents by voters could deprive millions of South Africans of the chance to vote. Victor Mallet, Johannesburg

'MILLENNIUM BUG'

Poor country computer threat

Just over a third of developing countries have initiated programmes to deal with the "Millennium bug" Year 2000 computer problem and barely 1 in 7 are taking serious steps to protect their computer systems, a new survey by the World Bank has found. Of 139 countries in the study, only 54 had adopted "Y2K" policies and just 21 had embarked on a concrete programme design to safeguard vulnerable economic sectors such as power generation and financial and transportation systems.

The problem arises because many older computer systems are unable to tell the difference between 1900 and 2000, causing potentially serious disruptions. Mark Suzman, Washington

AIR RAIDS ON IRAQ

US widens choice of targets

A top US official said yesterday the military had been given instructions to widen its targets against Iraqi challenges to the exclusion zones, as US warplanes fired at Iraqi targets for the fourth consecutive day.

Sandy Berger, US national security adviser, said President Bill Clinton had responded to military requests for more expansive rules of engagement after last month's four-day US and British air strikes. "Our pilots understand, and our air force understands, that if there are violations of the no-fly zone, our response will be not simply against the particular source of the violation or source of the threat but our response, as appropriate, will be against any of the air defence systems that we think makes us vulnerable," he said. Roula Khalaf, London

Cell transplants emerge as brain disease cure

By GIVE COOKSON in Anaheim, California

Scientists are developing several types of living cell for transplanting into the brain as a treatment for illnesses such as strokes and Alzheimer's. Their sources range from animal testicles to human embryos.

Neural transplantation is making rapid progress, its leading practitioners told the American Association for the Advancement of Science. Its aim is to repair diseased or damaged brains with

healthy new cells.

Because the cells must be young and flexible enough to grow into the host brain, the only source so far has been the brains of aborted fetuses. Clinical trials show that these ameliorate the symptoms of Parkinson's disease but they are in extremely limited supply, besides being ethically unacceptable to some people.

Paul Sanberg of the University of South Florida is working on alternative sources in collaboration with

two US biotechnology companies, Layton Bioscience and TheraCell.

One is a line of human cells, derived originally from testicular cancer and transformed into a non-cancerous form resembling neurons. They make various neurochemicals that the brain needs to function properly. A clinical trial to test whether these cells can restore the functions of people who have suffered a stroke started recently at the University of Pittsburgh.

Prof Sanberg's other novel

line is so-called Sertoli cells from the testes. They nourish growing sperm while protecting them from attack by the immune system.

Animal experiments show that Sertoli cells relieve the symptoms of neurological disease by supplying growth hormones to the brain. They are effective on their own but work best when transplanted together with embryonic brain cells.

Because Sertoli cells have evolved to avoid attack by the immune system, animal cells - probably from pigs -

could probably be transplanted into human brains without the risk of rejection. But clinical trials are at least two years away.

Meanwhile Evan Snyder, a neurologist at Harvard Medical School, is developing what might become an all-purpose source of brain cells for transplantation. His laboratory recently cloned "human neural stem cells" - immature cells that can develop into any more specialised brain cells.

Several years' work on

animal models of human diseases will be required before the stem cells are ready for clinical trials.

But Dr Snyder says his research offers the hope not only of replacing foetal cells in transplantation but extending it "to the broader goal of reseeded the entire brain with progenitors that would then take their cue from the existing brain and mature into whatever cell type was needed, wherever it was needed." That could in principle treat almost any brain disease.

Prince's pivotal position in army key to dynastic upheaval

By David Gardner, Middle East Editor

Uneasy lies the head that wears the crown is the inevitable title of the autobiography of King Hussein of Jordan, the improbable survivor of countless plots, coups, insurgencies, three Arab-Israeli wars, the Gulf war, a civil war with the Palestinians, and about a dozen assassination attempts in 46 years wearing the heavy crown of his coveted desert kingdom.

His eldest son Abdullah may well be reflecting on how such a crown will fit him. He was sworn in as crown prince and regent at Amman airport yesterday, as

his father unexpectedly flew back to the US clinic treating him for cancer for six months, barely a week after his triumphant return.

The new crown prince, 37, who was made a major-general last year, is a soldier through and through who heads the elite Special Forces - the strike forces of the Bedouin army which is the tribal bedrock of the monarchy. He was said yesterday to be "shocked" at his appointment, having expected his father to call a "family council" to decide the succession.

Until last week, it was universally assumed that Prince Hassan, 51, the king's amiable

and eclectically studious brother and confidant, would automatically succeed him. All were aware of tension between Queen Noor - the king's fourth, American-born wife - and Princess Sarvath, Hassan's Pakistani wife, busily pressing the rival claims of their teenage sons, Princes Hamza and Rashid. Yet it was assumed this feud was about the succession to Hassan, not Hussein. Apparently not, as King Hussein unveiled in a letter to the sacked Prince Hassan yesterday, accusing him of interfering in army appointments during the king's six-month absence, and complaining of a cam-

paign of "whispering, innuendo, and smearing... against my wife and sons".

There has long been debate about the ability of Prince Hassan to lead Jordan. Educated at Harrow and Christ Church, Oxford, he came across very much as an English patrician, gently clubbable but increasingly rightwing and prone to loquacious abstraction, better equipped to discuss rules of origin in international trade than sense Jordanians' frustration at their descent into poverty despite the promise of regional peace with Israel.

By contrast, some Jordan-

ians resent the fact that Prince Abdullah is half British, born of the king's second wife, Toni Gardner (Princess Muna). Indeed, childhood friends say he has had to struggle with his Arabic, spoken with a heavy Bedouin accent. But his position in the army seems crucial - as the king hinted in his angry letter to his brother.

Aside from the monarchy, the army is Jordan's key institution, as it is in most Arab countries. As head of Special Forces, the Sandhurst-trained Prince Abdullah is at the confluence of the army and the powerful intelligence services. He is

extremely popular with the Bedouin ranks and has clashed with his superiors and the palace over their miserable conditions. He is, moreover, married to a Palestinian, the origin of about two-thirds of Jordanians; retaining their uncertain loyalty is part of the art of ruling the kingdom.

A childhood friend describes Prince Abdullah as "down to earth, intelligent, modest and very funny"; settled down after a fast-living youth much like his father's; alive to Jordan's endemic corruption; but who has "yet to leave a fingerprint on the country's politics". He faces formidable problems when

he does eventually take over. Jordan is surrounded by predatory neighbours - Iraq, Syria and Israel (which openly favoured Prince Hassan) - whose leaders show little hesitation in settling political scores on Jordanian soil, threatening to turn Amman into the proxy battleground Beirut became before and during the Lebanese civil war. Prince Abdullah himself won popular acclaim last year after eliminating an Iraqi gang responsible for a string of grisly murders in Amman.

It is, moreover, the East Bankers, or native Jordanians, rather than the Palestinian majority, who are

most disenchanted with the 1994 peace treaty with Israel and the failure of the so-called "peace dividend" to materialise. Prince Abdullah will have realised this when he put down bread riots in the loyalist city of Irbid in 1996.

Beyond King Hussein's vanity at wanting to keep the succession within his own line of the 800-year-old Hashemite dynasty, the key to Prince Abdullah's appointment is not hard to find with hindsight. As a senior palace official remarked before the upheaval: "Security is our boldest row."

See Editorial comment

WORLD TRADE

Indonesia offers 8-year tax holidays to investors

By Sander Thomas in Jakarta

Indonesia yesterday attempted to revive investor interest in its shaky economy by offering tax holidays of up to eight years for new projects in 22 industries.

New investments in production of textiles, pharmaceuticals, steel, various machinery and equipment, vehicles and some chemicals can receive a tax holiday of five years if located outside the islands of Java and Bali. Domestic and foreign investments on these two relatively industrialised islands get a three-year holiday.

Additional tax holidays of one year each are available for any project which creates at least 2,000 jobs, involve at least \$200m or in which co-operatives, promoted by the current government, own at least 20 per cent. Oil refineries outside Bali and Java are also entitled to the various tax breaks.

Analysts doubted the holidays would draw in many foreign investors, given the shaky economy and political situation, while most local companies need cash for working capital and cannot afford expansion.

The presidential decree is the first major tax holiday offered to industries at large, rather than to particular investors as was the practice under former president Suharto. His successor, B.J. Habibie, has ended some of these privileges, which tended to be contingent on

large payments, in line with an agreement with the International Monetary Fund.

It is unclear whether the new tax holidays are in line with the agreement, which calls for higher tax revenues, or whether they comply with commitments to the World Trade Organisation.

Indonesia is also facing a sharp drop in investment, however. Some \$12.5bn in investments had been approved between June and October 1998, compared with \$33.8bn for all of 1997.

Implementation fell well below the usual 30 per cent. Officials this month said that \$2bn in investment approvals had expired without any follow-up, while another \$5bn could expire by the middle of this year.

Mr Habibie last year eased some restrictions on investments in sensitive industries, such as banking, and removed some red tape.

The tax holidays are targeted at industries which are most affected by the current crisis, such as car production, or have the most potential to bring Indonesia export earnings, such as textiles. Many are now heavily dependent on imports, which proved fatal when the rupiah collapsed.

The exemptions also encourage investment outside Bali and Java, which remain attractive because of an abundance of cheap labour, developed infrastructure and large markets.

Italians urge EU to retreat in banana dispute with the US

By James Blitz in Rome and Frances Williams in Geneva

Italy yesterday opened up a crack in the European Union's hitherto united front in its banana dispute with the US, by urging the EU to soften its stance in order to avoid a "counterproductive" trade war over the issue.

Lamberto Dini, foreign minister, called the EU banana import regime, which favours imports from Africa, the Caribbean and the Pacific, "a very strong distortion of trade". He said it should be amended to "reduce the level of protection given to countries associated with the European Union".

Mr Dini's comments are potentially embarrassing for Brussels, which insists that

changes to the regime, made after a 1997 World Trade Organisation ruling against it, have brought it into line with global trade rules.

The US says the regime still does not comply with the ruling and is threatening sanctions on \$520m of EU exports by March 3.

"To enter a confrontation with the US and see Italian and European products discriminated against, and hit by new import duties, would be counterproductive," Mr Dini said.

Italy's foreign ministry said Italy was concerned that its exports could be particularly badly hit if the sanctions went ahead.

Meanwhile in Geneva, the US was again prevented from seeking WTO authorisation for retaliation against

the EU for its alleged failure to comply with WTO rulings on its banana import arrangements.

However, the two sides appeared to be edging towards a procedural compromise suggested by Renato Ruggiero, WTO director-general, that would buy more time for a negotiated settlement of the dispute. Though the proposal is acceptable to the US, the EU is still seeking "reassurance" about the sanctions timetable.

Yesterday's planned meeting of the WTO's dispute settlement body was suspended until tomorrow as member states argued over Washington's right to seek for sanctions approval before a WTO panel now under way has ruled on the legality or otherwise of the EU's amended

banana import regime.

On Monday two small Caribbean banana producers, St Lucia and Dominica, blocked the agenda of the meeting that was due to consider the US request, a move which Washington claimed was inspired by Brussels.

The US argues that under WTO rules it must be given authorisation now to implement sanctions, though these could be delayed until March 3 if the EU insists on WTO arbitration of the amount and type of goods involved.

Under Mr Ruggiero's plan the EU would invoke its right to arbitration, thereby preventing US sanctions coming into force on Monday. Meanwhile, the two sides would hold consultations.

Sanctions threat starts to tell

By Kevin Brown, Industry Editor

Calls by Lamberto Dini, the Italian foreign minister, for a quick settlement of the banana dispute are the clearest sign yet that US threats to impose sanctions on a range of European goods are hitting home.

Detailed figures produced by officials acting for Sir Leon Brittan, the European Union trade commissioner, show that the sanctions would affect exports worth \$492m (\$570m) from the 13 EU countries targeted. The countries not targeted are Denmark and the Netherlands.

"This sanction list is absolutely arbitrary. It includes people who have absolutely

no link with bananas whatever, except perhaps that they put one in their lunchbox," said a spokesman for Sir Leon.

The biggest impact would be on the UK, which exports \$120m of targeted goods. Italy (\$113m) would be next, well ahead of France (\$96m), and Germany (\$71m).

In round terms, the impact on the other nine countries is: Belgium \$35m, Spain \$22m, Portugal \$12m, Greece \$8m, Austria \$5m, Sweden \$4m, Ireland \$3m, Finland \$2m, and Luxembourg \$13,000.

The worst hit business sector would be plastic goods - defined as non-adhesive straps, sheets, film, foil and strips of polymers of propylene - worth \$32m a year to

the EU, mainly from Germany and France.

However, more widespread damage may be inflicted on biscuit makers, who sell a total of \$71m to the US. The biggest sales are from Belgium (\$20m) and the UK (£13m), but all the target countries except Finland and Luxembourg export biscuits.

Cashmere sweater exports are worth \$49m, almost entirely from the UK (\$26m) and Italy (\$23m). Handbag exports total \$36m, of which \$23m comes from France, \$11m from Italy and \$1m from Germany.

Other targeted sectors include \$31m exports of lead-acid batteries, mainly from the UK (\$20m), and Italy (£7m); greetings card sales of \$26m, overwhelmingly from

the UK (\$22m); sales of bed linen worth \$23m, mainly from Spain and Portugal (both €7m); and light fittings worth \$22m, largely from Italy (€10m), Spain (€4m), and France and Germany (both €2m).

Smaller sectors include bath preparations (€21m), mainly from the UK (€11m) and France (€5m); candles (€20m) mainly from Italy (€6m), Germany and the UK (€6m each); folding cartons and boxes (€19m), mainly from Germany (€9m) and France (€4m); and pecorino cheese (€18m) from France (€7m), Italy (€6m), and Greece (€5m).

The other sectors facing sanctions are pork products, lithographs, wallets and felt paper.

NEWS DIGEST

TRADE SPAT

Hungary angered by Czech complaint to WTO

Hungary protested yesterday after the Czech Republic complained to the World Trade Organisation about Hungary's imposition of a quota on Czech steel imports last month. Hungary said it had imposed the 45,000 tonnes a year quota in response to Czech restrictions on Hungarian wheat. The two governments have 80 days to try to resolve the dispute before it goes to a WTO disputes panel. Both countries belong to the Central European Free Trade Area, which aims to remove trade barriers by 2001. Robert Wright, Budapest

SOUTH AFRICAN POST OFFICE

Four in bidding for contract

Four international consortia are bidding for a contract to help restructure South Africa's loss-making post office, Jay Naidoo, minister of posts, telecommunications and broadcasting, announced yesterday. The four groups are led by Canada Post, Deutsche Post, La Poste of France and a partnership of New Zealand Post and the UK's Royal Mail. "empowerment" groups, are represented in most of the consortia. The invitation to foreign companies to help reform the post office is the latest move by the South African government to persuade international partners either companies become more profitable through "strategic management partnerships". South Africa's postal system has been plagued by theft and inefficiency in recent years, and millions of black citizens do not have formal addresses. Victor Mallet, Johannesburg

WTO LEADERSHIP

EU indecision delays choice

WTO members yesterday called for more intensive efforts to reach consensus on a new director-general to succeed Mr Renato Ruggiero, who retires at the end of April. Canceled failure of the delay in coming to a decision is the contingent candidate of the 15 EU member states to agree on a successor. Among the 100 or so WTO members the current front-runner, followed by Morocco's Hassan Ington's favoured candidate, has the most second choices. France's Roy MacLaren is lagging in fourth place. Frances Williams, Geneva

السنة من العمل

Republicans cut back list of witnesses

By Mark Szerman in Washington

Republican prosecutors yesterday sharply scaled back the number of witnesses they hoped to call for President Bill Clinton's impeachment trial.

The move was an effort to assuage Senate concerns that new testimony would significantly extend proceedings in the face of growing public disapproval.

The 13 trial managers from the House of Representatives also asked senators to "request" Mr Clinton's appearance to answer questions directly about the charges that he committed perjury and obstructed justice in covering up his affair with Monica Lewinsky, the former White House worker.

With both sides jockeying for position before two important votes, expected today, on whether to dismiss the case and whether to call witnesses, the managers told senators they wanted to subpoena Ms Lewinsky, Vernon Jordan, a close friend of Mr Clinton, and Sidney Blumenthal, a White House aide.

Menem forces dollar plan to top of political agenda in Argentina

The opposition is wary but officials see benefits in proposal to abolish peso in favour of US currency, writes Ken Warr

Ask nicely enough and the grumpy newspaper vendors in downtown Buenos Aires will swap a \$100 bill for 100 Argentine pesos, even though dollars are not - as yet - the country's legal tender.

The vendors never liked the look of the Brazilian Real, devalued earlier this month after weeks of suspense.

Dollars are already widely accepted in shops and restaurants throughout Argentina.

But behind its rejection of "dollarisation", the opposition is watching events with

mounting alarm. Presidential elections will be held in October and the political debate is shifting away from its favoured campaign theme.

Mr Menem has pushed the debate into an area of vicarious importance for Argentines - how to ring-fence the economy from external shocks, such as the chaos that has descended on Brazil in the wake of devaluation.

Memories of the hyper-inflation of the 1980s and early 1990s run deep.

The fact that this plan throws the opposition on the defensive is doubtless just one of its attractions for Menem, said one official.

Another attraction is that the plan reminds nervous international investors that Argentina has a weapon in its policy armoury denied to most other emerging economies.

US, Argentina could dollarise in the face of a speculative attack, officials said.

But beyond these short-term considerations, senior central bank and Economy Ministry officials are increasingly persuaded that dollarising under a "treaty of monetary association" with the US would provide real long-term benefits for the economy.

Convertibility, the currency board system that has pegged the peso at par to the dollar since 1991, has worked well, but not quite well enough, they say - investors still demand a premium for the perceived risk of devaluation.

Argentina, which must back every peso in circulation with a dollar in its central bank reserves, has renounced an independent monetary policy and handed the setting of interest rates over to the markets.

The markets have not exactly been kind in return. Every time a crisis breaks in an emerging economy, Argentine interest rates

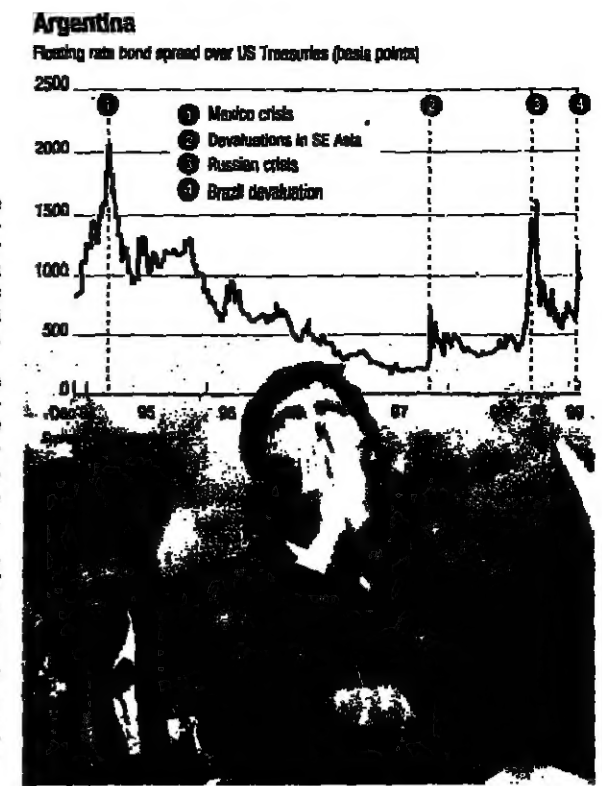
spike higher. It took three months for Argentina to differentiate itself from other emerging market borrowers in the wake of last year's Russian debt crisis and regain access to the capital markets. Then came Brazil.

The country, helped by the restraints imposed by convertibility, easily meets the European Union's Maastricht convergence criteria in terms of its fiscal deficit, inflation and public debt, officials point out.

"But it's like we've gone through the discipline of convergence without the pay-off in terms of interest rates," said one official.

"In 50 years perhaps the credibility would be there. But why wait that long, suffering high spreads and volatility in the meantime?" said another.

Negotiation of a monetary treaty with the US is seen as a more stable option than unilateral dollarisation. It could take two to three years, according to central bank president Pedro Pou, and would involve US agree-



Argentina Floating rate bond spread over US Treasuries (basis points)

Brazil central banker rejects capital controls

By Geoff Dyer in São Paulo

The introduction of strict capital controls would have "tragic consequences" for Brazil and result in a moratorium on its external debt, Francisco Lopes, the new president of the country's central bank, said yesterday.

However, share prices on the São Paulo stock exchange were 6.2 per cent higher by mid-afternoon. The currency has devalued 35 per cent since the government was forced to abandon its peg to the dollar on January 13.

The government's seeming inability to control the devaluation has prompted a debate within Brazil over the virtues of Malaysia-style capital controls.

On Sunday the Folha de São Paulo, one of the country's leading newspapers, ran a front-page editorial calling for the rationing of dollars, a policy known as centralisation, to stabilise the currency.

"Centralisation would inevitably lead Brazil into a

moratorium," said Mr Lopes.

"We spent 10 years paying the price for the moratorium in the early '80s, a time when we were considered a second-class country."

The economy would lose access to external credit and direct foreign investment, expected to be \$25bn this year, he added.

Mr Lopes, who was speaking at a confirmation hearing in the Senate, also ruled out a currency board and said Argentina should not dollarise its economy. "Argentina would become a type of Panama. The currency is one of the bases of any society," he said.

Interest rates could be raised again to stop further currency falls.

JUDGE JACKSON SOMNOLENT EXTERIOR HIDES FINE LEGAL MIND

Slumbering bear spends winter with Microsoft

By Richard Wolfe in Washington

He may be considered one of Washington's finest legal minds - a judge who presided over the cocaine trial of former mayor Marion Barry and now holds the future of the world's most valuable company in his hands.

But Judge Thomas Jackson sits through the Microsoft monopoly trial as if he were somewhere else. After three months in a neon-lit, windowless courtroom, Judge Jackson lolls in his chair like a slumbering bear.

As a Microsoft executive clashed repeatedly with the US government's lawyer yesterday, Judge Jackson rubbed his eyes and flashed several glances at the courtroom clock. The arguments ranged inconclusively over the definition of "market share" and "internet browser", as the judge appeared to be contemplating his mid-morning recess.

However, the somnolent exterior can be deceptive. Microsoft's leading lawyer leapt to his feet yesterday to object to repeated questions over the company's decision to stop using the word "browser" - the internet software that is at the heart



of the antitrust trial. But Judge Jackson slipped down his objection with the firmness of someone who could recall the entire morning's proceedings from memory.

One former colleague said Judge Jackson was liked by Washington's trial lawyers precisely because of his easy-going attitude. "He has a huge zest for life," he said.

"The lawyers who appear in front of him love him because he has not forgotten what it was like to be in the well of the courtroom."

"There are many judges who just sense that they know the parties' case better than the lawyers and get in the way of a trial. Tom is very good at staying out of the way of lawyers, whether they are hanging themselves or setting out a good case."

When the portly 61-year-old judge intervenes in the proceedings, it is invariably with a joke. Early in the trial he kicked off the day's proceedings with a politically incorrect joke about how men consider computers to be like women - as soon as you commit yourself to one, you find yourself

spending half your pay on accessories. Judge Jackson is above all a long-standing feature of the Washington legal establishment. The son of a Washington lawyer, he joined the family firm - Jackson & Campbell - after a career in the Navy and a law degree from Harvard in 1964.

He was an attorney in 1972 for Richard Nixon's Committee to Re-elect the President (CREEP), which supported the break-in of the Democratic National Headquarters in the Watergate.

His status as a conservative Washington insider appears to have little influence on his approach to Microsoft. In place of a Reaganesque *intense* *faux* approach to antitrust law, Judge Jackson has repeatedly ruled against the world's largest software company over big and small legal issues alike.

He apparently cares little for what others think of his judgments, especially the media.

In a recent article in the Federal Lawyer magazine, Judge Jackson said: "I have a visceral sense that the relationship between a potentially newsworthy case and the press is roughly comparable to the relationship between a healthy organism and an infectious disease."

"Lessons I have learned the hard way have taught me that if I regard the case in just that way, and activate my immune system early on, both I and the case are less likely to suffer adverse consequences."

On the web today
● Colombia appeal for quake supplies ● Canada finds downside to charter of rights ● Nasa plans search for alien life forms ● Mexican interest rates may be raised <http://www.ft.com/americas>

CONTRACTS & TENDERS

Agencia romana per la preparazione del Giubileo S.p.A. (Roman Agency for the Preparation of the Jubilee Co.) continues to receive numerous offers from businesses for the sponsorship of individual services or works intended for the great Jubilee of the year 2000, an occasion when some 24 million visitors are expected to come to Rome. In this context, the Agency deems it useful for the purposes of proper information to make it known among interested parties that offers for the sponsorship of the promotion of businesses or other ends may be inserted in the context of a series of Agency activities, as also in both physical and IT or telematic spaces connected with these activities. Very briefly, the spaces in question, which are of various sizes and available for various periods of time, are constituted by the fences around construction sites and the scaffolding surrounding buildings that are undergoing works of public utility with a view to the Jubilee, as also by IT services and systems widely viewed both in Italy and abroad, including the internet sites and home pages of the Agency and the co-ordinated reservation system.

Interested parties may, either personally or by post, request information by contacting:
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A NEW PERSPECTIVE

Oilfield royalty rules may be eased

By Kevin Brown, Industry Editor

The government is considering simplifying the royalty remission regime for North Sea oilfields to help the beleaguered industry cope with a collapse in oil prices which has jeopardised fresh investment.

John Battle, the energy minister, will meet oil executives today to discuss a six-point action plan designed to cut the industry's cost base and help it cope with price cuts of more than 50 per cent

in the past 15 months. Benchmark Brent crude was trading at about \$10.70 a barrel yesterday - above its 12 year low of \$9.64 in December, but well below the \$21 for which it was selling in September 1997, when the government was considering increasing oil taxes.

Royalties, which have produced about £560m annually for the government in recent years, are a levy on production charged on fields that were operating before 1982. This includes many early fields which were nearing

the end of their productive lives before profitability was damaged by low prices.

Officials say ministers are considering making it easier for companies to apply for either partial or total exemption from royalty payments if that would keep in production fields that would otherwise close.

"Nothing is ruled in and nothing is ruled out," Mr Battle said. "It is not ruled off the agenda. It is not a no-go area. We are prepared to look at fiscal questions."

government and industry task force on oil and gas production, said ministers were determined to ensure the industry survives. "We are not going to sit back while there is a low price and watch the industry decline," he said.

The task force will also discuss ways of making the regulation and licensing regime work better, including greater co-ordination between field development plans, safety regulations and environmental assessments.

action plan cover ways of improving the competitiveness of the supply chain and simplifying contractual issues; better and quicker use of new technology and other innovations; improving skills and training; and sustainable development.

The oil and gas industry employs about 30,000 people offshore, and has created about 300,000 onshore jobs over the past 30 years. Total government revenue from oil and gas fields, which peaked at £12.1m in 1984-85, amounted to £3.5m last year.

Few in government or the industry expect the oil price to recover much in the short term. "What people are doing now is adjusting for and planning for an oil price that is unlikely to rise significantly in the near future," said Mr Battle.

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NEWS DIGEST

INWARD INVESTMENT

Chinese companies study potential factory ventures

Three Chinese companies are considering opening in north-east England the UK's first manufacturing investment from mainland China. The disclosure follows a visit by members of the China Administration Association of Electronic Enterprises. The names of the companies were not disclosed.

The Chinese delegation, who spent 10 days in the UK, discussed a joint manufacturing proposal with a medium-sized electronics company, a direct investment or joint venture manufacturing project with a medium to large-sized consumer company and a collaborative marketing and research and development telecoms investment.

The UK now has 58 inward investments from mainland China. So far, they have focused on sales, marketing, distribution and banking rather than manufacturing - a similar pattern to that followed by Japan in its early investment experience in Europe. The Invest in Britain Bureau said it was not aware of any mainland Chinese companies manufacturing in Britain. Chris Tighe, Newcastle upon Tyne

INTERNET ACCESS

Toys R Us to offer free service

Toys R Us, the US-based toy and games group, is to follow the example of Dixons and Tandy, the UK electrical retailers, and offer its UK customers free access to the internet. Toys R Us is joining Cable and Wireless Communications to provide the telecommunications network for the new service. ICL, a UK computer services offshoot of Fujitsu, is providing the hardware, software and web hosting facilities.

Customers will be able to obtain the new service via compact discs available from Toys R Us stores. This latest move in the UK internet service provider market is likely to increase pressure on those companies charging for access. In particular, the smaller ISPs, which typically charge £10 (£16.50) a month for their services, are likely to be under pressure. Christopher Price, London

ANTI-RABIES LAWS

Reform may come before 2000

Britain's tough anti-rabies laws could be scrapped by the end of the year under government plans to reform the quarantine system. The British Isles are free of the disease, which occurs in much of north-west Europe, and UK law requires all domestic animals entering the country to be quarantined for six months at the owners' expense even if the animals have been vaccinated.

Nick Brown, agriculture minister, has told the Royal Society for the Prevention of Cruelty to Animals that he wants early introduction of "pet passports" for animals immunised against rabies. He is considering changing the law using "secondary legislation", which is not dependent on the provision of a scarce slot in the packed legislative timetable of the House of Commons. About 5,000 dogs and 3,000 cats spend six months in quarantine in the UK every year. George Parker, London

EU DEVELOPMENT AID

Call to help poorest countries

The UK yesterday called on the European Union to rebalance its development aid budget to provide poorest countries with a greater share. George Foulkes, junior development minister, told members of the European parliament and non-governmental organisations that the proportion of EU development aid going to the poorest countries had fallen from more than 70 per cent 10 years ago to about 50 per cent.

The balance needed to be shifted if the EU was to help bring about its aim of contributing, by 2015, to a 50 per cent cut in the proportion of the world's population living in extreme poverty. Mr Foulkes' intervention is part of an effort by the UK government to reform EU aid. The government's Department for International Development, recently said the EU's financial and procurement procedures acted as a brake on flexible and efficient implementation. Mr Foulkes yesterday said more than 70 per cent of the poorest people lived in Asia but in 1997 the EU had spent only 15 per cent of its \$6.7bn development aid there. Michael Smith, Brussels

BREWER'S APPEAL

Court to rule on lower duty

The Court of Appeal in London yesterday reserved judgment on whether to allow brewer Shepherd Neame to take its battle for lower UK beer duty rates to the European Court of Justice in Luxembourg. Three judges said the ruling would be given later. An advocate for the company, based in south-east England, told the judges that the aim was to "prevent British beer succumbing to its Continental rivals" and stem the tide of cheap imports from France and Belgium. He accused the UK government of acting in breach of European Union law by imposing two successive increases in excise duty on domestic beer.

STATE PAYMENT DELAYS

Firm 'delivered to contract'

Andersen Consulting is to resist paying any further compensation to the UK government for the delays that have plagued the introduction of the new National Insurance recording system. The firm, which developed the system free of charge to the government, believes it has delivered hundreds of thousands of payments to pensioners and other claimants and is having to be made on an estimated basis. Nicholas Timmins, London

Corrosive influence of power begins to tarnish image of Blair administration

PM's high rating in polls is not shared by his government, says Deborah Hargreaves

Today's Labour government led by Tony Blair bears little resemblance to the one swept from power by Margaret Thatcher and her Conservative party almost 20 years ago.

Britain was then emerging from the notorious "winter of discontent", a series of public-sector strikes that had almost brought Britain to a standstill.

The Conservatives ruled for the next 18 years, and for most of the 1980s it was hard to imagine how Labour would regain power. But by the time Labour was returned with a landslide victory two years ago, the Conservative administration was riven by factional infighting, corruption and shabby financial deals.

Mr Blair set as his mission a clean-up of British politics and said he would govern for the "whole nation". He sounded surprisingly like a Labour version of Mrs Thatcher, and the two are said to get on well.

His tight grip on the presentation of his party's policy certainly resembled that of the "iron lady".

The economic climate inherited by Mr Blair could hardly be more different from that of 1978. Far from being in the grip of strikes and union power, Britain

has seen its unions emasculated by successive Conservative legislation and Mr Blair has reduced their long-standing influence within the Labour party.

But Mrs Thatcher's Achilles heel - relations with the European Union - has come to haunt Mr Blair in the shape of a public row over tax harmonisation between

countries and UK indecision over when it will adopt the euro.

Mr Blair's halo of reformist zeal has also been tarnished in recent months as his government has fallen victim to some of the corrosive influences of power.

First, a prominent minister resigned after what he described as "a lapse of judgment"; he met strangers in a London park and was later robbed, but denied a sexual motive for the late-night

encounter. Some months later, a secret loan between two top-level ministers was revealed, leading to accusations of cronyism between members of the cabinet.

The ministers involved resigned. But the Conservative slogan "Tony's cronies" stuck, as the opposition party accused Mr Blair of planning to fill a reformed upper chamber of parliament with cronies.

Further embarrassment came with the publication of a book by the former wife of Robin Cook, the foreign secretary, which paints a picture of a womanising, heavy drinker with a strong antipathy towards some of his most senior government colleagues.

Rumours of deep divisions between forward-looking ministers and old-style Labourites have been more difficult to throw off. Persistent claims of a rift between Gordon Brown, chancellor of the exchequer, and Mr Blair have forced both to come up with speeches in praise of the other.

Labour is not in danger - its majority in the House of Commons is vast. But the government has been given a taste of the ease that proved so disastrous for the Conservatives in the mid-1980s and reinforced public

cynicism about politicians.

Mr Blair has tried to divert reports away from the vagaries of his own ministers towards the government's key policy areas.

But the bad press has been exacerbated by a crisis in the state health service, which has been overburdened by a rash of influenza cases. Scare stories about hospitals running out of beds and intensive care units strained to breaking point do not make easy reading for ministers who championed the service and pledged to reduce waiting lists for operations.

In addition, last week's decision by Faddy Ashdown, leader of Britain's third party, the Liberal Democrats, to stand down this year could endanger Mr Blair's cherished "project" of a possible partnership with Mr Ashdown's pro-European party. The "project" is extremely unpopular among some members of Mr Blair's own government.

Mr Blair himself has managed to escape much personal criticism and his approval rating in opinion polls is still high. But he needs to direct the public's attention back to some of Labour's key policies and successes if he is to dispel a sense of drift.

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Labour MP denies four charges

Mohammed Sarwar (above), a Labour MP and the UK's first Muslim MP, yesterday denied four charges when his trial opened in Edinburgh, Scotland. He was accused of attempting to pervert the course of justice, understating election expenses, and of an alleged fraudulent scheme to have four names added to the voting register. One charge alleges that he attempted to pervert the course of justice by inducing a man to make false statements about two other candidates in return for a payment of £5,000 (£8,250).

Beatings put strain on accord over N Ireland

By David Wighton, Political Correspondent

The bipartisan approach in the House of Commons to the Northern Ireland peace process will be strained to breaking point today with a renewed call from the opposition Conservative party for the government to postpone further releases of paramilitary prisoners. Traditionally the Conservative and Labour parties have supported each other's efforts to secure peace in the region.

Andrew Mackay, Conservative Northern Ireland spokesman, will declare it "immoral" for additional releases to take place while paramilitary punishment beatings continue.

Mr Mackay will call on MPs in the governing Labour party to back a motion by Frank Field, a respected former minister, urging the government to slow the releases. The motion says the government should use the programme as a "political sanction against a... regime of increasingly brutal intimidation". Mr Field's move underlines increasing concern on the Labour back benches at the beatings which the Conservatives claim are a breach of the 1998 peace agreement.

Output at Land Rover to be curbed

By Julietta Jowitt in Birmingham

The Rover offshoot of BMW is to suspend production of two Land Rover models because of a drop in demand. Work will be suspended on the Defender range for two weeks and on the Range Rover for one week as part of a company wide cut of "several thousand" vehicles.

The company said the cuts would "not be significant" and it hoped they would be made up during the second half of the year, when demand traditionally picks up. "If [the suspension] is to smooth production levels in the early part of the year to

parallel market demand and in the latter part of the year we expect demand to increase," the company said. The move is nonetheless a setback for Rover because Land Rover sales are needed to compensate for falling car sales. Falling demand for Land Rover would deepen problems for the loss-making group, which last year imposed 2,500 redundancies.

Production volumes for the new Rover 75 car have also been halved because of lower-than-expected demand. Figures for 1998 show that although total Land Rover sales rose 20 per cent to 151,500, sales of the tradi-

tional Defender, Discovery and Range Rover models fell by up to 25 per cent. Defender sales were also hit last year after the range had to be withdrawn from the US because the vehicles were not fitted with airbags.

The good news for Land Rover was the Freelander, which was launched at the end of 1997. It has sold 46,500, contributing most of the total rise in sales. Freelander production is also to stop for three full days and months, but volumes will be maintained because of increased efficiency.

Lex Service group's latest Ford cuts, Page 15

GOVERNMENT OF THE REPUBLIC OF ALBANIA
MINISTRY OF FINANCE

PRIVATISATION OF
THE NATIONAL COMMERCIAL BANK OF ALBANIA

The Ministry of Finance (MoF), on behalf of the Government of Albania, advertises the privatisation process of the National Commercial Bank (NCB) of Albania (Decision No. 725 of date 19.11.1998), in order to pre-qualify potential investors.

NCB is currently a 100% state-owned retail commercial bank with a nation wide network of 10 branches with its headquarters in Tirana.

As defined in the privatisation formula of NCB, (Law No. 8433 of date 21.12.1998) 100% of shareholding will be privatised. More than 50% of shares will be sold to a strategic investor, namely a bank with an active commercial banking experience, through an open international tender. The remaining shares may be sold to financial investors through negotiations.

The tendering process will be in two stages:

- pre-qualification process of potential investor
- evaluation and final selection

Potential investors are asked to present the following documents:

- Act of establishment, bank by-law, brief profile of the bank and its activities, including country of origin, scope and scale of national and international banking operations for the past three years, amount of capital, management system and its administrators
- Auditor's report for the past three years
- Audited balance sheet for the past three years
- Audited profit and loss accounts for the past three years
- Written consent from supervisory authorities of the country of origin for licensing and carrying out banking activities in Albania

Documents sent in advance by interested investors are valid and pre-qualification will be based on the above requested documents.

Pre-qualification of potential investors will be based on the following criteria:

- Reputed international bank or financial group with direct commercial banking experience
- Commercial banking operations in several countries
- Proven financial and technical resources to develop NCB as a major commercial bank in Albania
- Proven capability to integrate NCB into its international operations
- Adequate evidence to demonstrate that all Albanian banking and other relevant legislation requirements would be met, notably the granting of a banking license to the Bank of Albania

New investors who are interested to take part in the privatisation of NCB, should request from the Banking Supervision Department in the MoF, Tel/Fax ++ 355 42 350 62, until 1st February 1999, a copy of "A review of National Commercial Bank as an investment opportunity" against signing a confidentiality agreement.

MoF will prepare a short list of qualified investors who will be invited to submit a final bid proposal. Selection criteria for tendering will be attached to the invitation.

Tender will be opened on 15th February 1999 at 12.00 a.m.

The objective of the tender process will be to rank the bids in term of priority for entering into direct negotiations.

All documents must be submitted in English language to:

Mr. Dritan Priti,
Chief of Cabinet,
Ministry of Finance,
Bulevardi "Deshmoret e Kombit"
Tel/Fax ++ 355 42 37937,
Tirana,
Albania

Tirana, 22 Jan. 1999

Handwritten note: 150

السؤال الثاني

COMPUTER LINKS LAUNCH OF JINI

Magical link-up for peripherals

Answer to a computer user's prayer or a bridge too far? Louise Kehoe on Sun Microsystems' extension to its Network Computer approach

Anyone who has ever struggled to get a new printer, or perhaps a scanner, to work with their personal computer, Jini sounds indeed like the magic of a genie. The new technology from Sun Microsystems promises to make connecting computer equipment as easy as plugging in a toaster.

Computing is just too complicated, Sun maintains, especially when it comes to linking computers and peripherals on a network. The computer manufacturer, software developer and outspoken Microsoft critic has set out to create an approach to computer networking that hides all the complexity and makes networks far more flexible.

It may be too soon to spend disbelief. Before Sun can deliver on its promises, the company must overcome its biggest rivals in the PC industry.

Jini is an extension of Sun's long-running campaign to dispense today's PC, which Scott Nealey, Sun's chief executive, likes to describe as: "Something that you need a teenager to work."

A cheerleader for the "network computer" - a simple terminal assigned to link users to the internet - Sun misses no opportunity to challenge Microsoft.

With Java, the lingua franca for computing that enables programs to run on any type of computer, no matter which operating system or hardware is used, Sun has waged a three-year battle to persuade the computer industry that it is moving into a "post-PC era" in which Windows software will become irrelevant.

Now Sun is applying a similar "network-centric" approach to linking peripherals - whether they be printers, digital cameras, hand-held computers or even household appliances. Jini, launched officially this week, automates the process of creating a network of computing devices by adding "intelligence".

A Jini-enabled digital camera,

Pilot hand-held devices - and link them all to the television screen in a hotel room to create a network.

"This turns 'plug in and pray' into 'plug in and it works'," says Ed Zander, Sun's chief operating officer, in a thinly veiled dig at Microsoft's Plug and Play PC technology, which is supposed to enable PC users to add new peripherals with ease.

However, the success of Jini will depend largely on Sun's ability to persuade manufacturers of computing devices and internet services, to adopt the new technology. Only if a wide variety of computing devices are Jini-enabled will the technology become a useful standard.

At its Jini launch event in San Francisco on Monday, Sun claimed to have won the support of 37 companies, ranging from Kodak to Xerox, that were "currently integrating the technology into next-generation devices for home and business".

Consumer electronics companies, in particular, were enthusiastic about the technology.

Bosch-Siemens pledged that Jini would become "an integral part of our global efforts to develop advanced products and services". Sony, Philips and others said their scheme for home networking would be "bridged to Jini". Sharp saw potential for it in "mobile devices" and Samsung declared Jini "a solution that will change the future of home networks".

Cisco, the leader in networking equipment, also recognised the potential of Jini in home networks and 3Com was enthusiastic about using it to link its popular Palm Pilot hand-held computers to internet information services.

Yet the first market opportunity for Jini is probably in the office, rather than the home, Sun acknowledged. Small businesses that cannot afford the services of IT professionals to manage their networks, and bigger companies that want to reduce IT costs, will be the first to adopt Jini-enabled products, said Mike Clary, Jini general manager at Sun. In home offices, Jini would also be welcomed with

open arms, he predicted. For these computer users the real challenge is hooking up new printers, scanners, modems and other standard PC peripherals and then persuading several PCs to share the devices.

Yet few of the leading manufacturers of these products have committed themselves to adopting Jini. Hewlett-Packard, the leading supplier of PC printers, for example, expressed only lukewarm support for the technology.

Although it is the first such technology to make a big splash, Jini has lots of competition. Microsoft recently unveiled its scheme for linking computing devices - "Universal Plug and Play" - offering similar advantages to Jini while maintaining the ubiquitous Windows software standard. Lucent, IBM and Hewlett-Packard also have their own ideas for new ways

to make it easier to hook up computing devices on a network.

In this competitive arena, Sun's Jini has one serious drawback. Few computer users are likely to throw out the products they use in favour of new Jini-enabled equipment. Sun's scheme must therefore incorporate ways to link "legacy" equipment to new Jini-enabled devices. This will be achieved, according to

Sun, by switching the tasks of identifying and managing peripherals back to the desktop or network server.

In the real world, it seems that even Jini's magic cannot transform the complexity of "legacy" PC networks overnight. Rather, the new Sun technology will have to prove itself in a looming standards battle that spells yet more complexity for computer users.



'This turns "plug in and pray" into "plug in and it works"'

done - all without the assistance of technicians.

In the home, computers, televisions, kitchen appliances and telephones might be linked, via the internet, to create a virtual "home network". Or, as Sun suggests, sales executives from a group of companies co-operating on a contract bid might network the equipment they carry with them on a business trip - a laptop computer, a disk drive, Palm



INFORMATION TECHNOLOGY BRIEFS

A speedier search in palm of your hand

Navigation through cyberspace with small-screen devices such as palm-top computers can be frustrating. With one-fifth of the resolution of a typical PC monitor, in terms of the number of pixels, handheld browsers can display only a fraction of the average web page.

It is particularly frustrating for small-screen device users, who tend to be looking for a specific piece of information, rather than "surfing".

Middlesex University, led by Matthew Jones, is working with Reuters to develop software tools to overcome this problem. "We want to develop a system that will avoid the site designer or the user having to do a lot of work themselves to make it easier," says Mr Jones.

The group has developed a program that creates an outline of a site's content and displays it in textform. It is a bit like the outline of a Word document, says Mr Jones, "except you end up with an outline of an entire site, not just a single page. Our software accesses a site, then searches it to produce a skeleton structure."

The tool exploits a feature of HTML, the language used to make most web pages. The HTML code contains labels and pointers known as tags. These divide up pages and mark the headings, tables, lists and picture captions. Mr Jones's software recognises these tags and breaks down pages into subsections. Small-screen users will be able to choose to access only relevant information. m.jones@mdx.ac.uk

Meetings in the mini-recorder

Panasonic's new compact and lightweight digital recorders as small as a credit card but can record up to 60 minutes of business meetings or voice memos using a built-in

flash dynamic random access memory (D-Ram) chip.

The RR-DR80 IC Memory Recorder uses Panasonic's Code Excited Linear Predictive data compression and decompression technology and can store up to 99 files. Each file is automatically given a time stamp including the date, time and duration of the recording and providing instant access without the need for fast forward or rewinding. Files can be erased individually or all at once.

A large liquid crystal display screen provides status indicators including recording dates, time and battery power remaining. The machine also warns when the remaining recording time reaches 10 minutes; pressing the "mode" key while recording shows the remaining recording time.

Other features include voice-activated start, an intro-scan that plays the first few seconds of each file, and slow and fast playback. www.panasonic.co.uk

Disc chip packs all functions

The most important challenge for semiconductor companies is to integrate more and more functions on to smaller and smaller slivers of silicon in order to improve performance, increase reliability and reduce costs.

For example, DVD (Digital Versatile Disc) players require lots of discrete components to perform so-called "back-end" functions such as decoding,

data stream processing and signal encoding as well as one or more central processing units to control all these activities. Now National Semiconductor's Mediomatics unit has managed to pack all the back-end functions of a DVD player, including host processing, on to one chip.

Mediomatics' DVD-on-a-chip, dubbed Pantera-DVD, includes all the hardware and software needed to control consumer DVD drives, which are increasingly replacing CD-Rom drives in PCs and are capable of storing full-length feature films or huge software programs.

The first consumer DVD players designed to use the chip are expected to be on sale within months. www.national.com

Memory scaled down to size

Toshiba, International Business Machines and Siemens, three leading semiconductor groups, have developed the world's smallest memory chip. The three companies used line widths measuring just 0.175 microns to produce a chip 40 per cent smaller than the previous generation of D-Ram devices.

Toshiba plans to start mass producing the new D-Ram chip in Japan this year and then transfer the technology to its joint venture with IBM in the US. Production volumes have not yet been decided, but the Japanese group has the capacity to produce 5m 64Mb D-Ram chips a month. Toshiba expects the smaller

D-Ram size to enable it to reduce costs.

Meanwhile, Toshiba and Fujitsu have said they will jointly develop and launch the next generation of 1-gigabit D-Ram chips early in 2002.

The two companies will assemble a 100-strong team of researchers at Toshiba's development centre to work on the project, which uses 0.13-micron process technology. www.toshiba.co.jp

Site security made easier

Companies engaged in electronic commerce or with sensitive information to protect demand the best security, but also require ease of use.

Hewlett-Packard, a leader in internet security, has launched two software products, Praesidium DomainGuard Rules and DomainGuard Rules, which aim to make it easy for organisations to create and manage secure web sites within which customers, business partners and employees can perform transactions and share sensitive information.

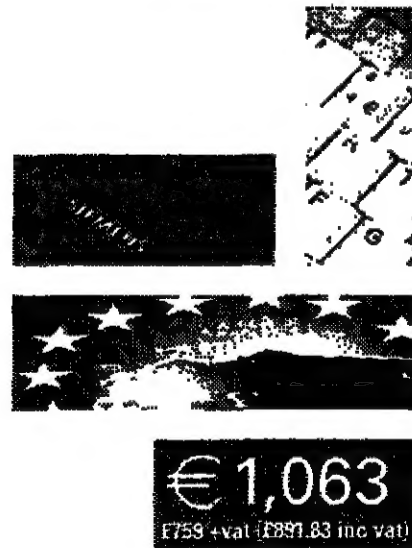
DomainGuard "snaps" into existing web server software to deliver centralised, role-based protection for web "objects" such as applications, web pages and forms and for transactions. Yet it is simple enough to enable line-of-business managers to administer security policy.

DomainGuard Rules adds transaction authorisation rules. This, for example, enables an administrator looking after a web-based supply chain software application to limit the ability of partners to check inventory and orders for their own products and mutual customers only. It intercepts web forms containing the product number and customer ID and checks the query is for the authenticated partner's product and an acceptable customer. www.hp.com

Paul Taylor

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صكنا من الامارات

THE ARTS

SALEROOM

Battle of the Old Masters

Sotheby's and Christie's are vying for pole position in this area, writes Antony Thomcroft

London's hottest ticket may be for the Monet exhibition at the Royal Academy; in New York Jackson Pollock at MOMA might be the talk of the town, but for the cognoscenti the big money in art is currently being spent on that once overlooked genre, Old Masters.

Old Master paintings have become all the rage in recent years. This may be partly because they suddenly seem very cheap compared with Impression-

ism. Christie's, in contrast, expects its best Old Master auction ever in the US, with a high estimate of \$27m. It is offering Velazquez's *St Rufina*, which carries a \$3m estimate. No fully authenticated work by Velazquez has appeared at auction since 1970, when his portrait of Juan de Pareja set a record for any work of art at auction of \$2.3m (\$3m).

St Rufina is not in this class, but the interest in the painting - not least from museums, who are big players in this sector - has caused Christie's to double its expectations. Like most of the great Old Masters to arrive at auction it has spent much of its past life wrongly attributed - in this case to Murillo. Now it is the centrepiece of a group of 22 Spanish Old Master paintings, which also includes works by El Greco and Murillo.

This specialist mini auction inside the major sale is part of a recent trend in which overlooked areas of art are polished up for extra promotion. The time has come for Spanish painting.

Christie's is also offering a Canaletto: indeed this recently discovered "Capriccio of a piazza" is reckoned to be the artist's first recorded painting. It is an imaginary view of a Venetian square and carries a top estimate of \$500,000.

Other important works on offer include a full length portrait of a gentleman by Frans Hals; a river landscape by Van Goyen; and a typical scene of brawling peasants by Pieter Brueghel II. But more interest might be shown in a group of French 18th century paintings sent for sale by BNP.

The French bank, which dabbled in art investment around 1980. Whether it pays off depends on the bidding for the highlights: an Egyptian fantasy by Hubert Robert; a superb portrait of a young boy in Hungarian dress by the largely forgotten Pierre-Hubert Subleyras; and "La lettre" by Bolley, which is unusual in being painted to look like an engraving.

In financial terms BNP might not show a profit, but the appear-



Detail from 'Portrait of a young boy in Hungarian dress' by Pierre-Hubert Subleyras (1680-1748), which is expected to make over \$800,000 at Christie's, New York

ance of these paintings will certainly give a fillip to French 18th century art. The Subleyras in particular has attracted a lot of interest and it is likely to exceed its \$900,000 top estimate. In 1990 Christie's sold it for \$670,000.

Sotheby's is offering a classic Old Master, "The agony in the Garden" by Poussin, which only resurfaced a few years ago and is in a fine but uncleaned state. It is being sold by a Swiss bank and should make at least \$2m. There has also been considerable interest shown in a macabre painting

by Pieter Brueghel the Younger, "The Triumph of Death", which was inspired by the horrors of the bubonic plague. It is being sold from the estate of Peter Putnam, an eccentric millionaire who worked as a night watchman; it should make

\$1.5m. Anyone who misses out on this lot has the chance to bid on four more works by Brueghel. Sotheby's would be pleased to bring in \$40m from the auction.

lectors from all over the world picking over in excess of 500 top quality Old Masters. There is light even in an appearance by Steve Wynne, the Las Vegas hotelier, who last year bought a Rembrandt and a Rubens to decorate his hotel complex. Naturally they are also for sale.

Behind the scholarly excitement in New York this week will rage two battles - between Sotheby's and Christie's for pole position in this increasingly lucrative market, and between London and New York for dominance as the distribution centre. Traditionally New York was tops in Impressionist and Modern art while London's centuries of expertise made it the centre for Old Masters.

Now New York seems to have seized control of this sector. January auctions appeal to the trade, which is keen to stock up for the Maastricht art fair in March; New York also has low taxes and a growing number of local collectors.

London is still important, with December's Old Master auctions raising over £13m at Sotheby's and almost £15m at Christie's, but if the threatened taxes from the EU - VAT doubled to 5 per cent on art works imported from non-EU countries and the imposition of the *droite de suite*, giving heirs of artists a royalty on sales - come into force as expected, its position could be quickly eroded. It is already facing a challenge from Paris, which is shaking off many of its bureaucratic restrictions and should soon be handling the 17th and 18th century French Old Masters now sold in London and New York.

The battle between Sotheby's and Christie's is likely to ebb and flow, depending partly on the promotional deals that the auction houses dare offer owners of big collections. They can no longer offer guarantees and spend fortunes on promotion. What used to be a sedate market, dominated by dealers, museums and a handful of rich connoisseurs, is now a bitterly contested battlefield.

The connoisseurs will come into their own with the Old Master drawings sales, which remain the preserve of learned specialists with a good eye and a sense of the past. These, too, are exceptional with Christie's offering tomorrow a \$2m drawing by Barocci, the modello for an altarpiece, as well as works by Rubens, Goya and di Credé, while Sotheby's today has choice drawings by Bolley, Canaletto, and van Aelst for passionate collectors who cannot afford to join the increasingly competitive Old Master paintings market.

All the omens are good for these auctions, with dealers, museum curators and private collectors from all over the world picking over 500 top quality works

ists - a painting by Velazquez, regarded by many as the greatest artist ever, might go at auction for less than a work by Magritte, the trendy Belgian surrealist.

But also the sheer quality of the art is recognised by an increasingly sophisticated group of buyers. They might start with the easy stuff - Venetian views by Canaletto; Dutch still lifes by de Heem - but gradually their taste matures and they are chasing the Italian baroque and the French classical.

There are even new buyers for religious paintings, which a few years ago were considered almost unmarketable; an El Greco on offer at Christie's on Friday, a sombre painting of St Francis at meditation, has attracted considerable interest.

Last year Sotheby's set a record for an Old Master auction at its annual January sale in New York, bringing in \$63.8m (\$82.5m). It is not expecting to raise as much this week but it

Another young life of unrealised promise

THEATRE

IAN SHUTTLEWORTH

Brief Candles
New End Theatre, London NW3

"Dear Diary: met the Pope today - seems an amiable old fellow. Also, I seem to have developed consumption."

All right, this is a gross parody of both Marie Bashkirtseff's diaries and Carlo Ardito's play based on them, but... within the last three months we have seen *Saving Private Ryan* (about Charlotte Salomon), *The Snow Palace* (Stanislawa Przybylovska) and now *Brief Candles*; might we perhaps, please, have a temporary moratorium on plays about little-known, obsessive, young female artists?

As Ardito's narrator admits at the close of the play, Bashkirtseff was a promising but (thanks to TB) professionally untried singer, a fairly skilled painter and something of a beauty, but

her reputation rests almost entirely on the posthumous publication of her prodigious journals - 103 volumes by her death in 1884 at age 24.

These reveal the young "Riviera Russian" (her determination to be remembered for, well, something or other pretty great; at age four she thought she would marry the Tsar and achieve social reform; at age 13 marry the Duke of Hamilton and become notorious in society; her last months she divided herself, planning to win the Prix de Rome for art and corresponding pseudonymously with Guy de Maupassant.

It was a life filled with promise, but promise unrealised, and although pleasant enough, neither Ardito's piece nor Stella Quilley's production can escape this sense that it really consists of a prolonged yet unfinished overture to an actual life. The show's selling point is the involvement of Quilley's husband Denis as narrator (and in miscellaneouse male roles ranging from Marie's father to King Victor Emman-

uel II by way of His Holiness). Denis Quilley is, of course, a skilled actor, but seems here simply to be taking it easy before his next major season at the National. He treats the audience as friends at an after-dinner entertainment, allows gentle fun to be poked at his comfortable girth, and at one point even playfully twirls his false moustaches.

Elsewhere, the play relies on similarly knowing touches to illicit compassion, as when Marie - a champion of representation in art - speaks of the Impressionist trend towards "painting by patches" - in my opinion, a grave mistake. Moreover, surely all playwrights are now aware of the pitfalls of the historical-drama syndrome summed up in the line "Hello, Chopin - my, that's a nasty cough." Yet Ardito delights in references to things like "the new sect they're calling Communism", and actually (oh, joy!) does introduce Marie's incipient consumption by having another character remark that "The girl has a very nasty cough."

As with the other plays mentioned above, *Brief Candles* is a fairly agreeable way to pass a couple of hours, but hardly compelling in its subject matter.

Until February 14.

Duo at the cutting edge of impro

JAZZ

GARRY BOOTH

Max Roach and Cecil Taylor
Barbican Hall, London EC2

Pianist Cecil Taylor and drummer Max Roach have held up as the barely acceptable face of modern jazz for nearly 40 years. That they continue to stand at the bleeding edge of the avant garde after so many years says as much about their enduring showmanship as it does their ability to unsettle. "Oh boy," said an anxious voice behind me after the first set at the Barbican Hall on Sunday, "Oooh boy." A solo set from each followed by a duet is a daunting prospect.

Recognisable melody, rhythm and harmony submerged in a maelstrom of notes delivered with ferocious, unremitting energy,

has been Taylor's trademark since he came to the fore in the mid-1960s. Unlike Taylor, 78-year-old Roach has a bebop pedigree, and in the 1940s worked with Parker and Gillespie. But he took a left turn in the 1960s to join the politically inspired modernists and his work has been on the dissonant side of jazz correctness since.

Age has deprived Roach of firepower and he looks frail now shuffling towards his kit. But the technique persists and all the polyrhythmic sharpness is still in place. His kit is not fancy (three ride cymbals, three snares, two tom-toms, a bass drum and a hi-hat) and Roach's sound separates each piece out in sharp relief. In bop fashion, the steady hi-hat (*tish-tish-tish*) points the way while the other drums orbit elliptically and independently.

Taylor, 10 years Roach's

junior, is in fine fettle and milked our credulity for all it was worth (up to £17.50 for the best seats) with his opening gambit of gargled Dadaist poetry and free-form "I at

Perhaps that's the secret of their success - they're two safe pairs of hands at the dangerous end of the business

the poetry had stopped. The second half, performed as a duet, raised the game of both players. Roach, more lumber now, dug in methodically to carve a twisting channel for Taylor's torrent of notes. As the tide turned back to Taylor controlling the stream of ideas, Roach clattered across the current to fill every available space with eddying rhythms.

Free improvisation can look easy. But in the wrong hands and without the traditional progression of choruses and bridges going by, it can be too scary for comfort. On Sunday Roach and Taylor together arrested time and placed the listener firmly at the centre of a vivid musical diorama. Perhaps that's the secret of their success - they're two safe pairs of hands at the dangerous end of the business.

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-557 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Janescke, and the cast includes Carmen Oprisanu and Martin Thompson; Jan 28, 31

ANTWERP

OPERA
Flanders Opera
Lukt by Berg. Conducted by Bernhard Körtvisky in a new staging by Ivo van Hove, with Constanca Hauman in the title role; Jan 27

BARCELONA

CONCERTS
Palau de la Música Catalana
Tel: 34-93-268 1000
Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Beethoven and Stravinsky, with violin soloist

Frank Peter Zimmerman; Jan 27
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein and Mahler; Jan 28

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Die Zauberflöte: by Mozart. Conducted by Jiri Kout in a staging by Günter Krämer, with designs by Andreas Reinhardt; Jan 27
Manon: by Massenet. Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Jan 28

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Mefistofele: by Bolto. György Györfi/Rath conducts a revival staged by Peter McClintock. Samuel Ramey sings the title role; Jan 30
Romeo et Juliette: by John Gounod. Conducted by John Nelson in a staging directed by Nicolas Joël. The cast stars Roberto Alagna and Angela Gheorghiu; Jan 29; Feb 1

HOUSTON

THEATRE
Houston Grand Opera, Wortham Center
Tel: 1-713-227 2787
www.hgo.com
A Little Night Music: by

Sondheim. Grant Gershon conducts a production by Michael Leeds, with a cast including Frederica von Stade, Thomas Allen and Sheri Greenawald; Jan 29, 30, 31

LONDON

CONCERT
Barbican Hall
Tel: 44-171-538 8891
Royal Philharmonic Orchestra: conducted by Daniele Gatti in works by Brahms and Mahler, with soprano Ruth Ziesak; Feb 1

DANCE

Sadler's Wells
Tel: 44-171-663 8000
Tanztheater Wuppertal Pina Bausch: Viktor. Long-awaited return to London by the Pina Bausch company, which is celebrating its 25th anniversary. With designs by Peter Pabst and a score including jazz, folk and classical music; Jan 27, 28, 30

EXHIBITIONS

National Gallery
Tel: 44-171-639 3321
Portraits by Ingres: Images of an Epoch. 40 paintings and 50 drawings by the 19th century French painter. Includes major loans from museums in France, the US and elsewhere; from Jan 27 to Apr 25, then touring to the US

Royal Academy of Arts
Tel: 44-171-300 8000
Monet in the 20th Century: arriving in London from Boston, this exhibition brings together late works by the founder of

Impressionism. The 80 paintings on display include important public and private loans, culminating in a group of seven of the monumental water lily panels which were the triumph of his career; to Apr 18

LYON

OPERA
Opéra National de Lyon
Tel: 33-4-7200 4500
Zelmira: by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos, with a cast including Mariella Devia; Jan 27, 30; Feb 1

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Symphonieorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Jan 27, 30

OPERA

Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatsoper.bayern.de
Lohengrin: by Wagner. Peter Schneider conducts a staging by Götz Friedrich. Cast includes Adriana Pieczonka and Waltraud Meier; Jan 27, 30

NEW YORK

CONCERT
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030

www.lincolncenter.org
New York Philharmonic: conducted by André Previn in works by R. Strauss; Jan 27, 28, 29, 30

OPERA

Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Werther: by Massenet. Donald Runnicles conducts a staging by Paul-Emile Deiber. Cast includes Thomas Hampson; Jan 27

PARIS

CONCERTS
Cité de la Musique
Cleveland Orchestra: conducted by Christoph von Dohnányi in the European premiere of Ives' and Porter's Emerson Concerto. The programme also includes works by Ives and Schubert. With piano soloist Alan Feinberg; Jan 31

Salle Pleyel

Tel: 33-1-4561 6589
Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Beethoven and Stravinsky, with violin soloist Frank Peter Zimmerman; Jan 30
Luciano Pavarotti: recital by the tenor, accompanied by pianist Leone Magiera; Feb 1
Orchestra de Paris: conducted by Neeme Järvi in Orff's *Carmina Burana*; Jan 27, 28

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
San Francisco Symphony Orchestra: conducted by Michael

Tilson Thomas in works by Canteloube and Mahler, with soprano Dawn Upshaw; Feb 1

PRAGUE

THEATRE
National Theatre of Prague
Tel: 420-2-2108 0131
www.nat.cz/nd
The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Jan 31

SAN FRANCISCO

CONCERT
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
Jean-Yves Thibaudet: recital by the pianist of works by Debussy, Rachmaninov and Liszt; Jan 30

TOKYO

CONCERT
Sunbury Hall
Tel: 81-3-3534 8999
NHK Symphony Orchestra: conducted by Stanislaw Skrowaczewski in works by Beethoven, Chopin and Lutoslawski, with piano soloist Bella Davidovich; Jan 28

TURIN

EXHIBITION
Biblioteca Reale
Tel: 39-011-545303
Leonardo drawings: 12 works from the library's collection, on display in their new air-conditioned and fireproof home. Includes preparatory sketches for 'The Virgin of the

Rocks' and nude studies; to Jan 31

ZURICH

EXHIBITION
Kunsthau Zurich
Tel: 41-71-251 6765
Chagall, Kandinsky, Malevich and the Russian Avant-garde: exhibition exploring the artistic upheavals of the first two decades of this century. In addition to important loans from the State Hermitage Museum in St. Petersburg, the show brings together pictures from 14 provincial Russian museums; from Jan 29 to Apr 25

TV AND RADIO

WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (483m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
CNN International Monday to Friday, GMT:

06.30: Moneyline with Lou Dobbs
13.30: Business Asia
19.30: World Business Today
22.00: World Business Today Update

Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

An incomplete city

In his final article in his series on the changes in former Soviet Bloc countries in the 10 years since the fall of Communism, John Lloyd returns to Berlin where it all started

The vote in the German Bundestag to move the country's capital from Bonn to Berlin was narrow - 336 to 320. The deputies who came from what had been West Germany voted decisively against - 291-214. Without the votes of the easterners, Germany would have remained governed from deep inside its west. You are reminded of this as you walk about Berlin now. Reminded, because the grudging, distrustful vote contrasts so savagely with the burst of joy and freedom on the night of the wall's collapse on November 9 1989. When the implications sank in of the throwaway remark at the end of a chaotic press conference by Gunter Schabowski, the East German Communist party politburo member - that East Germans could now cross to West Germany through the wall - the Bundestag burst into the national anthem. An East German border guard officer, for decades the symbol of repressive terror, gave his hat to a girl and got a kiss in return. Now, the renovation of the Reichstag on the Brandenburg Gate's western side is nearing completion: its Prussian shell sandblasted of the old bullet holes and encased by a glass dome designed by Norman Foster and said to symbolise openness to the nation and the world. Unter den Linden, a showcase even under communism, is now lushly commercial - save for the vast Soviet, now Russian, Embassy, sprawled out sullenly and redundantly beside the renovated Hotel Adlon, where Hitler put up his state guests. The Museum on Checkpoint Charlie is full of images of escape - photographs or reconstructions of tunnels, escape compartments in cars, the bleeding body of Peter Fechter, who bled to death on the wall while trying to escape a few metres from Checkpoint Charlie in August 1961; Olga Segler, a grandmother who died from injuries she sustained jumping from a second floor window to the west in September 1961. This was totalitarianism's clearest face - and the one which presented, implicitly, the greatest homage to the west.

class is moving, albeit reluctantly, back to a capital which has been in the past two centuries' imperialist, fascist and communist and thus must confront history more intimately than it had to in the past when the centre of the state was in a quiet university town. Germany's official and intellectual life is shot through with a recognition of the past, which is not - as in Russia, Japan and China - ignored, hidden or denied. But, as Gerhard Schröder the chancellor, has said, the new politicians of the German coalition are postwar figures. Three of its senior members, Oskar Lafontaine, finance minister, Joschka Fischer, foreign minister, and Schröder himself are the sons of impoverished families who had to struggle to give them enough to eat in the savagely Darwinian conditions of the immediate postwar. Bonn made a statement of abasement by its size and position. Berlin has been ambitious in everything it has tried - empire building, decadence, artistic excellence, world domination, and class consciousness. Will it succeed in making a post-unity statement of inspiration to the Germans.

and perhaps to all Europeans? One of the effects of determined federalism and of division has been that Frankfurt, Munich, Stuttgart, Cologne, Düsseldorf and other cities have taken their shares of industry, finance and media. Only one small division of Daimler Benz will be headquartered in its soaring new building on the Potsdamerplatz. The stock exchange will not be moved from Frankfurt. None of Germany's leading journals and newspapers is headquartered in Berlin, nor are any of its TV channels. "They want it," says Toni Pfeiffer, an activist on the much-contested Berlin architectural scene, "to be the capital once more of Mittel-Europa. But it won't be. It excludes even East Berlin, never mind the rest of Europe." That part of Berlin's - and Germany's - most vivid history remains the Nazi period, 12 years which gave the world an apparently eternal lexicon of the extremes of horror against which all

free intercourse, but the recall of both is palpable. I visited the offices of the sparky radical daily paper Tagesspiegel, still the expression of a German 1960s radicalism which centred on Berlin because the city - whose inhabitants were exempt from military service - were disproportionately pacifist, feminist, ecological and critical of all establishments. Tagesspiegel is successful because of its mixture of high seriousness and devotion to its founding principles. Its morning editorial conferences, at a much earlier hour than most dailies, begin with a 20-minute critique of the day's issue by a staffer or outsider, then ploughs through a packed news agenda on which everyone can have his or her say. Tagesspiegel, says Badische Mika, one of the three editors, hired a number of east German journalists after the fall - but it did not work well. They were simply different. Their radicalism was of a wholly different kind; their journalism, to west German eyes, cautious. The crisis came when the newspaper obtained a list of east German secret police officials and debated at its meeting whether to publish. "All the East Germans were against it," says Ms Mika. "They were horrified, saying it would just cause endless trouble. It was a passionate discussion, a real row. In the end they won the argument - but those who wanted it published put out a separate leaflet with all the names anyway."

This is a city incomplete, obviously, in the ambition of its new buildings - but incomplete politically, socially, culturally. It remains different from the rest of Germany - its unemployment (at 30 per cent) higher, its districts poorer, its political style more radical. No one doubts the national dedication to see Berlin rise again, but its message will be varied and ambiguous. Previous articles in this series appeared on January 11 (Romania), January 5 (Czech Republic), December 29 (Poland) and December 23 (Hungary).



After the wall, Berlin will once again be the capital but its message will remain ambiguous

LETTERS TO THE EDITOR

Japan must follow road less travelled

From Mr Howard R. Garber, Sir, Paul Krugman ("Japan heads for the edge", January 20) is correct to point towards monetary expansion as the proper method to regain Japanese economic well-being. But he takes the wrong fork in the monetary road. He asks whether Japan has developed "some novel economic theory under which a strong yen and high interest rates are expansionary". The quick answer is, no. Economic reality is now the present Japanese economic policy. The Japanese, I believe, now understand that creating an attractive income return in interest-bearing accounts will attract money into those accounts. Their action will create desired monetary expansion. Prof Krugman equates lower interest rates and weak currency with the road to economic health. Since the beginning of this decade, the Japanese have taken this traditional approach and have aggressively cut interest rates. This worn-out policy provided a continuing

cycle of lower interest income returns. Factor in a depreciating currency and a scenario is constructed for many negative returns. Common sense dictates that this was a misplaced rationale which reduced holdings of broad aggregate Japanese interest-bearing certificates. The St Louis Federal Reserve recently reported M2 growth - averaging approximately 3 per cent in the last five years: very weak monetary expansion under the circumstances. Enter today's new Japanese economic wisdom. Today's thinking provides that an increase in interest rates will provide increasing returns on interest-bearing certificates. Add a dash of capital appreciation through a strong yen. This then, is the recipe for increasing holdings in interest-bearing accounts and expanding the broad Japanese monetary aggregates, M2 and M3. Historically, growth in interest-bearing M2 and M3 accounts positively correlates to higher aggregate economic growth. Like the

US's early 1980s effort, an aggressive 7 per cent M2 increase will pull Japan out of its economic malaise. History also instructs that patience be maintained: economic growth generally occurs 18 months after the beginning of sustained monetary growth. It also teaches that sustained interest rate cuts and subsequent low levels failed to boost economic growth anywhere worldwide during the 1930s. Now is the time for the Japanese to debunk conventional wisdom. They must maintain interest rates high enough to attract broad aggregate interest-bearing investment. They must be vigilant against a depreciating yen reducing investment returns and creating a currency outflow. Japan must follow the road less travelled. Money will flow into the economy, and it will quickly regain its rightful place as a powerful global economic engine. Howard R. Garber, 2305 N. Commonwealth, Chicago, IL 60614, US

Expect a much bigger bond crash

From Mr Richard A. Werner, Sir, Paul Krugman is right to argue that, for a recovery, Japan simply needs to print money, and lots of it. He also says the Bank of Japan has failed to do just that. Yet he cites no statistics, only circumstantial evidence: "slumping bond prices" and a "sky-high yen". By adding up all the transactions of the central bank, one can measure its net credit creation reasonably accurately. Since March 1998, the BoJ has been printing money at a pace three times as fast as during the bubble years of the 1980s and unprecedented in a quarter century. So why have bond yields almost tripled and the yen jumped by almost 730 to

the dollar since September? Other things being equal, money printing will weaken the yen and push down bond yields. But the flaw lies in the assumption of "other things being equal". The yen-dollar exchange rate is determined by events in both countries. BoJ money printing has remained at historically high levels, but is not accelerating. Meanwhile, the Federal Reserve has been accelerating its dollar creation drastically. That had to weaken the dollar and strengthen the yen. The rise in bond yields was also inevitable. The bubble in the bond market had been used by the banks to create vast profits necessary to write off their vast bad

debts. When the bond bubble had done its job, the banks sold - at the peak, using derivatives. Without buying support from the banks, there was nothing to keep yields at such low levels. Indeed, the money printing of the Bank of Japan and the end of the bad debt problem imply that we must expect a sharp economic recovery this year. More growth means higher yields. Expect a much bigger bond crash. Richard A. Werner, chief economist and managing director, Prof Research Center, Harajuku Palais France Bldg 5/F, 1-6-1 Jingumae, Shibuya-ku, Tokyo, Japan

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Healthcare Reform: The Real Stakes. By William C. Steers, Jr. A world of ideas on public policy.

During the past two decades, all of the industrialised nations have enacted some form of healthcare reform. America is no exception. Just a few years ago, the U.S. was consumed by a vigorous public debate about healthcare. In the end, the debate was a useful one, reaffirming that the U.S. would retain its essentially market-based system. Instead of reform imposed from the top down, the American healthcare system underwent some rather profound self-reform, driven by powerful market forces. The market - not the government - managed to wring inflation out of the private healthcare market. Today, it appears that U.S. healthcare costs are again on the rise. At the same time, American patients - like patients elsewhere - are becoming more vocal about the restrictions many face in their healthcare plans. Talk of government-led reform is once again in the air. We must think twice, though, before embarking on "reform" if that means imposing further restrictions on our healthcare markets. The more sensible course is to introduce policies that make the market work better - that is, to the advantage of consumers. I base this argument on our company's decades of experience in healthcare systems around the world, which has given us a unique global perspective on the right and wrong way to reform healthcare. The wrong way is to impose layer after layer of regulation and restrictions. We have seen this approach tried in many countries, and we have always seen it fail - fail to hold down costs, and fail to provide the best

quality care. Medicine is changing at so rapid a pace that no government agency or expert commission, however learned, can keep up with it. Only an open, informed and competitive market can do that. This lesson holds true for the U.S. and for all countries contemplating healthcare reform. Free markets do what governments mean to do - but can't. The right approach is to foster a flexible, market-based system in which consumers have rights, responsibilities, and choices. Healthcare systems do not work if patients are treated as passive recipients of services; they do work if consumers are well-informed about quality, costs, and new treatments, and are free to act responsibly on that knowledge. Reform should never be driven purely by cost considerations. Instead, we ought to devise new ways of funding healthcare that will make it possible for all patients to afford the best care. Ideally, these new approaches would reward individuals and families for saving and investing in their own healthcare. They would also encourage innovation, which can make healthcare systems more efficient, more productive, and ultimately of greater value for patients. The path we choose will have enormous implications for all of us. We are in a golden age of science, and no field of scientific inquiry holds more promise than that of biomedicine. Not only can we look forward to the discovery of cures for chronic and acute diseases, but also to the development of enabling therapies that can help people enjoy more rewarding and productive lives. New drugs are already helping people who would once have been disabled by arthritis or cardiovascular dis-

ease stay active and mobile. More effective anti-depressants and anti-psychotics are beginning to relieve the crippling illnesses of the mind, allowing sufferers to function normally and happily in society. The promise is - quite simply - one of longer, healthier lives. What is at issue are the pace and breadth of discovery, and how quickly we can make the benefits of our knowledge available to the patients who need them. No field of scientific inquiry holds more promise than that of biomedicine. That is the task of companies like ours. However brilliant the basic research behind a new therapy, it takes the resources and capabilities of a pharmaceutical company to discover, develop and ensure broad awareness of a new medicine. Therefore, the policy environment the industry will face in the next century may make or break the next wave of biomedical breakthroughs. Will that environment include protection for intellectual property, freedom for the market to determine price, and support for a robust science base? Will healthcare systems nurture innovation, or remove incentives for discovery? Will they give consumers information and options, or impose stringent rules and regulations that limit access and choice? For the U.S., as for the rest of the world, the healthcare debate is by no means over. And for all of us, the stakes are higher than ever. William C. Steers, Jr. is Chairman and CEO of Pfizer Inc.



PERSONAL VIEW EISUKE SAKAKIBARA

Japan: don't panic

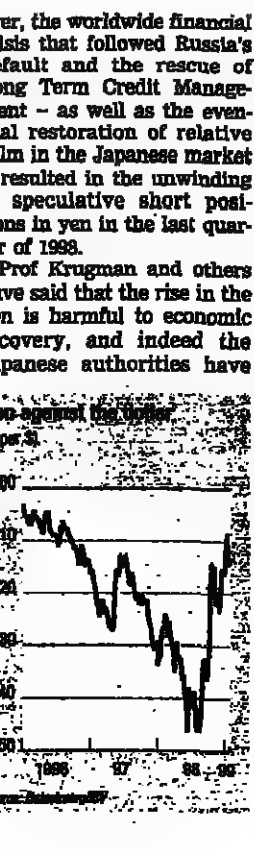
Critics have argued that the Japanese economy is facing shipwreck and that the government has been supine in the face of it. They are wrong on both counts

Paul Krugman, an American economist, has long been pessimistic about Japan's prospects for recovery and seems to use every occasion to make the simplistic argument that money should be created in whatever way possible to stimulate the economy. Now he is criticising the near-passivity of Japanese authorities in the face of "slumping bond prices and a sky-high yen" which he claims may throw the economy "into deflationary tailspin" (Financial Times, January 20). I disagree with this analysis and would like to explain our perception that some of the isolated positive signs we are observing now in Japan may develop into a genuine bottoming out of the economy in fiscal 1999. First, consider long-term interest rates. In September 1997, the Japanese government bond (JGB) rate was around 2 per cent, close to its historic low. The near-panic set off in October 1997 by the bankruptcies of some large financial institutions resulted in a big switch of funds away from private financial institutions and towards the public sector, postal savings, and JGB market in the fourth quarter of calendar 1997 and the first half of 1998. Banks which were concerned about possible default in the interbank market placed their short-term liquidity in JGBs and created what could be called a JGB bubble. Fear of financial collapse receded in the latter half of 1998, following a series of government actions including the establishment of an independent supervisory agency and legislation for liquidation, receivership, and recapitalisation. Confidence in private financial institutions began to be, at least partially, restored. Growth in postal savings, deposits in the Trust Fund of the Ministry of Finance, and Trust Fund purchases of JGBs naturally declined. Given the current credit crunch, what matters for companies is liquidity and not the 2 per cent nominal interest rates. In addition, there is also now a steeper

yield curve (note that the interbank rate is being maintained around 0.25 per cent). This should help banks in financial difficulties in the medium term, although it is true that a sudden jump in the JGB rate might result in short-term capital losses. It is worth remembering that American banks overcame their difficulties some 10 years ago thanks to a similar big differential between long and short rates. Now consider the yen-dollar rate. Before the financial panic - ie, during 1996 and up to September of 1997 - the rate was in the range of ¥105-¥130 to the dollar. Concerns about the financial system then drove the rate down to about ¥146 in June and August of 1998. However, the worldwide financial crisis that followed Russia's default and the rescue of Long Term Credit Management - as well as the eventual restoration of relative calm in the Japanese market - resulted in the unwinding of speculative short positions in yen in the last quarter of 1998. Prof Krugman and others have said that the rise in the yen is harmful to economic recovery, and indeed the Japanese authorities have

shown their determination to stop the yen's excessive strength. But what is really important for the Japanese economy is not necessarily a particular exchange rate but stability within a reasonable range. We intend to achieve this as long as stability is consistent with the fundamentals of Japan against the rest of the world. All in all, the year following the bankruptcies of big financial institutions in October-November 1997 was an abnormal period when both Japanese depositors and overseas investors feared that the Japanese financial system was on the verge of collapse. The JGB and foreign exchange rates which prevailed during that period reflected a crisis man-

There is no reason to believe that Japan is about to go into a deflationary tailspin. The financial crisis is about to end and with some lag the real sector will bounce back



are geared to relieve such strain while macroeconomic measures are being implemented to guarantee loans to medium to small-sized enterprises. Although we are not optimistic that the real economy will turn around quickly because of the lingering impact of the credit crunch and the loss of confidence since late 1997, there is no reason to believe that Japan is about to go into a deflationary tailspin. The financial crisis is about to end and with some lag the real sector will bounce back. Meanwhile, two misperceptions of Japan need to be corrected once and for all. The first is that not enough money is being printed. In fact, following the panic of October-November 1997, abundant liquidity has been supplied to the market by the authorities, although it is true that banks have been rapidly reducing their assets and lending to improve their capital ratios. The average rate of monetary growth was 4.0 per cent in 1998, compared to 3.1 per cent in 1997. Prof Krugman asserts that additional money must be created. That is exactly what is being implemented. The other misunderstanding is the possibility of "crowding out" private borrowers by public ones. Although outstanding gross government debt exceeds 100 per cent of gross domestic product, our net debt, including the social security fund, is less than 40 per cent of GDP, the lowest of all Group of Seven countries. In addition, around ¥100,000bn (20 per cent of GDP), is held by the Trust Fund of the Ministry of Finance. Given that total personal financial assets are estimated to be around ¥1,200,000bn (240 per cent of GDP), there is absolutely no possibility of crowding out now or in the foreseeable future. Furthermore, recovery after seven years of recession will significantly improve the fiscal deficit - although fiscal consolidation will be necessary as the economy picks up speed. The author is Japan's vice-minister of finance for international affairs.

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FINANCIAL TIMES

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Wednesday January 27 1999

Watch out for the fireworks

Martin Wolf asks whether, by neglecting Wall Street's overvaluation, the Fed has doomed the US to recession

Our objective is the maximum sustainable growth of the US economy, not particular levels of asset prices. Alan Greenspan, January 20 1999.

The Federal Reserve is the world's most prestigious central bank. The reputation of its chairman, Alan Greenspan, is even more exalted than that of the institution. It seems inconceivable that the bull market in their reputations should end.

Yet bull markets do end. A decade ago, Japan had a world-beating economy; its stock market seemed invincible and its officials were the masters of manipulating the market. Japan's current condition is evidence enough of the dire consequences of allowing asset bubbles.

If the US economy and the Federal Reserve's reputation are vulnerable, it is to asset prices, as it was in Japan. This was why the central theme of Mr Greenspan's testimony before the ways and means committee of the US house of representatives last week concerned "the rise in the value markets place on the capital value of US businesses".

Mr Greenspan insisted that the easing of monetary policy last autumn was a response to "an abrupt stringency in financial markets". But, he explained, "we were not attempting to prop up equity prices, nor did we plan to continue to ease rates until equity prices recovered, as some have erroneously inferred".

This distinction is easy to make in theory, but more difficult to understand in practice. An activist policy aimed at "economic activity going forward" will affect perceptions of risk in all markets.

By coincidence, Hans Tietmeyer, the Bundesbank's representative in the European Central Bank, expressed the contrary view on the same day as Mr Greenspan. Monetary policy, he said, should be steady and reliable, not interventionist. It may well be, he admitted, that one can have limited periods of time with artificially low interest rates. But this can easily send wrong signals, which lead to investment mistakes and inflated asset prices.

"This would tend," he suggested, "to move the financial markets in the direction of casino capitalism."

Here are two approaches to monetary management which rule the world's two most important central banks. The "irrational exuberance" Mr Greenspan once famously described has been partly the price of an activist monetary policy aimed at the "maximum sustainable growth of the US economy".

He gave this celebrated warning on December 5 1996. Since then the S&P composite stock index has risen by two-thirds. But the Federal Reserve has (as the chart shows) allowed monetary growth to accelerate since then, rather than slow. Mr Greenspan balks: he does not bite.

To ask whether policy should have been different is to suggest that more account should have been taken of Wall Street's rise. Should it? Conventional wisdom holds that monetary policy should aim to stabilise inflation - with inflation defined as the change in the prices of a current basket of goods and services.

Within this framework, asset prices enter both as indicators of inflationary pressure and as causes of it. The logic is clear: when money grows more quickly than the willingness of people to hold cash, the excess will be spent. The first object of additional spending is likely to be



equities, property, foreign currencies and so forth. The rise in the price of these assets is going to affect spending on goods and services, by making people feel richer and investment seem cheaper. Consumption and investment will rise and savings will fall.

This seems to be a good description of the US today. The similarity with the Japan of the 1980s is, the charts suggest, also striking. US growth of broad money is comparable to that in Japan's bubble days. Moreover, the ratio of the US stock market value to gross domestic product is nearly as high as in Tokyo in early 1990, just before the crash.

Has the Federal Reserve been foolish to let this happen? This is not immediately obvious. As is noted in a recent study from the Organisation for Economic Co-operation and Development, "the use of asset prices as indicators of future inflation is not straightforward". That point also shines from the charts: the US may be in the midst of an extraordinary rise in equity prices, but inflation is also falling to very low levels.

The interesting feature of the chart is that the same was true of Japan, more or less. The great rise in Japanese asset prices in the second half of the 1980s was accompanied by quite modest inflation, which never went above 4 per cent. If the Bank of

Japan is judged purely on inflation, its record is good. As for the Federal Reserve, its recent inflation record is outstanding. Two possible conclusions can be drawn: first, that a central bank can hit its inflation targets without paying much attention to asset prices; second, that it may be very dangerous to restrict attention too narrowly to immediate inflation. Just remember the mess Japan has fallen into. So maybe the reason to pay

the former happens, people who felt better off before will feel impoverished. If the latter occurs, the central bank will validate the new set of asset prices, by allowing a general inflation. Japan has chosen the first approach, with devastating effects on consumption and economic activity. So did the US in the 1980s.

The conclusion then is that what has happened to the US economy may produce one of two bad outcomes: asset price deflation or inflation in the prices of goods and services. Either way a recession seems likely. If so, this would be because the Federal Reserve paid insufficient attention to asset prices.

To this critique the Fed can give several answers: ● That it is impossible to distinguish asset price inflation from an increase in asset prices that has occurred for good reasons (for example, a reduction in the real rate of interest).

● That it is politically impossible to tighten monetary policy when all people can see is that they are becoming richer.

● That the problems of the global economy over the past year and a half forced the Federal Reserve to ignore the domestic overheating.

● That global price deflation makes it perfectly safe to run an apparently inflationary domestic policy for several years.

● Most important, that it will be perfectly possible to offset the effects on consumption and investment of asset price declines, by using a sufficiently aggressive monetary (and perhaps also fiscal) policy.

Notes that if the first of these points is true, then valuing assets is largely guesswork. There is evidence, however, to suggest that it is not. Indeed, stock market valuations appear to converge on a mean that is far below current values.

The remaining points merely define the gamble. In essence, the Federal Reserve decided that it would be easier to manage the aftermath of an asset price fall than any attempt to forestall the preceding rise.

By now, the option of choking off the asset boom is, anyway, unavailable. It is simply too late. But how the US ends from its apparently unsustainable position will determine the verdict on Mr Greenspan's time at the Federal Reserve. Either there will be a smooth transition to sustainability, with neither inflation nor deflation. Or - more likely - there will be a very bumpy ride, with both higher inflation and falling asset prices. If so, the case for paying greater attention to asset prices in setting monetary policy will be vastly reinforced. It will, also, be too late for the economy and for Mr Greenspan's reputation.

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Martin Wolf@ft.com

Yellow peril for trade

Ever since they came to blows two years ago over the US Helms-Burton anti-Cuba law, the US and the European Union have vowed to stop silly trade squabbles jeopardising their overall relationship. Their current dispute over bananas offered a perfect opportunity to put their good intentions into practice. They have abysmally failed the test.

Not only is the dispute driving a wedge between the US and Europe, when global economic instability requires them to intensify co-operation. The affair risks plunging the World Trade Organisation into an institutional crisis, imperilling its authority to enforce multilateral rules and deeply dividing its members.

Both sides are to blame. The US is behaving recklessly by threatening the EU with sanctions for failing to implement a WTO judgment against its banana regime. At best, this looks like jumping the gun, before the WTO has determined whether changes to the regime bring it into line with its ruling. At worst, the US is engaging in crude unilateralism, which violates the spirit - if not the letter - of the WTO rules it says it wants to uphold.

But Washington acted only after severe provocation by the EU. Its modifications to its banana regime appear minimalist. Furthermore, Brussels has repeatedly met US demands that

the WTO examine the amended regime with procedural delaying tactics. This obstructionism suggests serious EU doubts about the strength of its own case.

These antics, based on legalistic exploitation of ambiguities in the WTO's rules, are irresponsible, above all when performed by the world's two largest economic powers. The next world trade round should aim to limit the scope for such machinations, by tightening the rules.

But the first priority must be to resolve the immediate crisis. Justice, and the integrity of the WTO, demand that it be allowed to give a clear, objective and unequivocal judgment on the banana regime. The parties involved have said they are ready to respect the outcome. But they disagree over the timetable, and particularly over US refusal to suspend its sanctions threat until the WTO rules.

To allow these obstacles to frustrate the possibility of an orderly solution would be inexcusable. Both sides need to recognise that promoting and respecting the impartial rule of law is more important than the relatively trivial commercial issues at stake. They have long preached the primacy of that principle to the rest of the world. They should now show that they are determined to apply it unflinchingly to their own interests.

Arab successions

The rejuvenation of the Arab world's ossified leaderships is long overdue. King Hussein of Jordan, stricken for the second time this decade with cancer, astonished his people this week by shunting aside his bookish brother Hassan - crown prince for the past 34, tumultuous years - and appointing his eldest son Abdullah, 37, as his successor.

In the short term this may trigger a certain amount of dynastic upheaval. But Hussein, the region's great survivor after 46 years ruling a kingdom coveted by predatory neighbours, is at least still around while his heir is trying on the crown.

It is clear why Prince Abdullah was chosen over Prince Hassan and two rival siblings. As a major-general since last year, he heads the elite Special Forces - the hinge between Jordan's Bedouin army and the ubiquitous mukhabarat or intelligence services, which together are the bedrock of the Hashemite monarchy. Jordan has a sort of controlled democracy which has tried to include Islamist parties. But the army is no less central an institution than in the less benign despotisms of its Arab neighbours. Indeed, one of the King's main charges against Hassan was that he had meddled in the army.

Many other Arab countries, ruled in the main by ageing and ailing leaders, are facing succession problems. In nearly all,

power derives from the armed forces, even if, as in Saudi Arabia or Syria, underneath lies a tangle of tribal loyalties. And, irony of history, it is the republican regimes, heirs to the pan-Arab nationalist tradition of Nasser and the Ba'ath party, which have more dynamic problems than the once-reviled monarchies.

The ailing President Assad of Syria appears to want his untried son Bashar to succeed him; Saddam Hussein has groomed his two murderous sons; and even in Egypt, discreet regime voices are promoting President Mubarak's banker son Gamal. None of these leaders, or the ailing Yasir Arafat, has a recognised successor, should they succumb to illness or an assassin's bullet. The House of Saud, by contrast, has let Crown Prince Abdullah ring Saudi Arabia in the ailing King Fahd's stead - yet jockeying to succeed the crown prince is already underway.

All this threatens instability when these rulers depart the scene, and a crisis of legitimacy, which only greater democracy, transparency and economic success can eventually remedy. Unhappily, however, most Arab despotisms are likely to look across the river Jordan to Israel, where the polity is fast fragmenting on ethnic, religious, ideological and tribal lines ahead of May's general election, and confirm strongly that democracy is not for them.

UK economy

The danger that the UK economy might skid out of control and end up in the ditch has receded. But the latest quarterly industrial trends survey from the Confederation of British Industry shows that manufacturers are still very despondent.

The survey reports that 45 per cent were pessimistic about the business situation than they were four months ago, although the balance of pessimism has improved somewhat since the exceptionally low levels of last summer and autumn.

How should this be interpreted? On past form, confidence levels are low as those recorded in the last three surveys would be pointing clearly to a deep recession. For despite the fact that the manufacturing sector accounts for only a fifth of national output, the CBI survey has proved an accurate barometer for the whole economy.

So far in this cycle, however, the woes of manufacturers have been offset by a buoyant services sector three times the size of manufacturing, although the health of the two are interlinked. There is now some sign of a deceleration of growth in services during the last three months of 1998. But the sector still expanded by 0.6 per cent, helping to keep growth of the whole economy just above zero.

Household spending and retail sales have also been weakening, but the consensus of independent forecasters is that private con-

sumption will rise by about 1 1/2 per cent this year, about twice as fast as expected growth for the whole economy. A projected 2 1/2 per cent rise in government consumption will provide an even stronger prop to the economy than private consumption. But this is likely to be offset by increased leakage resulting from rising imports and sluggish exports.

It is not surprising, given this outlook for trade, that manufacturers remain gloomy. They were squeezed hard by the Bank of England's anti-inflation policy after May 1997, when interest rates rose in six quarter-point stages to 7 1/2 per cent. Since October, however, this squeeze has been reversed. Official interest rates are back at 6 per cent, while the trade-weighted value of sterling has fallen by 8 per cent since its peak in April.

The slight lifting of manufacturers' gloom revealed in yesterday's survey may reflect this easing of monetary policy. The survey also showed strong deflationary pressures. This may be bad news for sales directors, but it is helpful for the rest of the economy as another piece of evidence that the dangers of inflation have diminished.

The question for the Bank of England's monetary policy committee next week is whether these deflationary forces need to be countered by a further easing of rates to ward off recession. On balance, the answer is yes.

OBERVER

Flying in for a flutter

When high-rolling Greek businessman John Manetis's luck ran out at the gaming tables, he knew exactly what to do. He put his soaringly airline Cronus up for sale.

With a bunch of domestic routes, slots in London, Paris and half a dozen German cities - as well as boasting the fastest - of any Greek carrier - Cronus looked like a tasty morsel.

First to bite was Attica Holdings, a Greek super-fast passenger ferry operator quoted on the Athens stock market. But after announcing the takeover, Attica wasn't impressed with Cronus's accounts.

So now another shipping group is taking control of Cronus. The Laskarides family transports bananas round the world, and has a chunk of the Hyatt casino in Thessaloniki - where Manetis is said to have gambled more than a few drachmas.

This summer will see a new Hyatt hotel operating at full swing in Thessaloniki, close to the casino - another Laskarides investment. And who'll fly in the punters? Cronus, of course.

Goodbye Greti

It was last orders this week for Greti Novak, one of three sisters from Burgenland who ran the

famous Gmoea Keller in Vienna. The most popular publican in the city, Novak was awarded three weeks before her death, the Golden Verdienstzeichen der Republik for her thirst-quenching services.

As many as 350 people braved the bitter cold to attend her funeral; in her honour, bells across the town were rung in memory of the woman born 81 years ago in Odenburg, now part of Hungary. Not that she always proved to be a welcoming host.

Novak was notoriously picky when it came to allowing customers into her Heurmarkt hostelry, often throwing out people because she simply didn't know them. Anxious drinkers were heard announcing they were prominent musicians or actors in a desperate bid to secure a table.

Neither was she intimidated by rank. Even former chancellor Franz Vranitzky, having escaped from a state banquet, was told: "It's a private party and you can't come in." The landlady with attitude looked at his dinner jacket - and added: "Even if you are with the Philharmonic".

Dagmar's friends

After last September's election defeat, the chances of Germany's Christian Democratic Union and its Bavarian sister party, the Christian Social Union, determining the country's next

president have remained slim. But the parties are pulling out all the stops in putting forward Dagmar Schipanski, an electronics professor from Thuringia, as his candidate for the May 23 contest. Not only is the little-known professor a woman, she's also from eastern Germany and, for good measure, isn't a member of any political party.

Even so, Schipanski, who's 55, stands little chance against Johannes Rau, the former prime minister of North Rhine-Westphalia who is backed by the ruling Social Democratic party. The choice of successor to President Roman Herzog will be made by the parliament and federal states, most of which are SPD-controlled.

That hasn't stopped newly elected CDU leader Edmund Stoiber and his CDU counterpart Wolfgang Schäuble enthusiastically supporting Schipanski. Perhaps their minds aren't so much on May's contest - but more on the battle for chancellor in the 2002 federal elections.

Pregnant pause

Norway is in the throes of some labour pains. The country's petroleum and energy minister, Marit Arnstad, is talking maternity leave at the end of March. But who will get the job of looking after the country's oil wealth in her absence? The three parties which form Norway's coalition

government may be set to indulge in an unseemly scramble for Arnstad's seat. Arnstad's Centre party has six of the 18 seats in the cabinet, which is led by a Christian Democratic prime minister.

Norway isn't entirely new to governmental pregnancies. Grete Berget - appropriately enough the child and family affairs minister between 1991 and 1996 - was pregnant during the Labour government. But filing her job was child's play as there was then only one party to pick from. Berget also simplified the problem by endorsing most of her maternity leave on the baby's father, partly to set an example as family minister on how to split maternity leave. Perhaps Arnstad will think up a similar solution: Observer suggests working from home.

Tail note

It's a dog's life. Insurance companies in the US say they're fed up to the back teeth with paying out for damage caused by ferocious pooches. Quincy Mutual Fire Insurance told one dog-owner to abandon plans to adopt a German shepherd because of the risk it might sink its teeth into someone. Nasty hounds like Rottweilers, pit bulls and Great Danes are blamed for a big increase in the number of bites needing medical attention. Who was it who said a dog is a man's best friend?

Financial Times

100 years ago

Edison's Enterprise For several years Mr Thomas A. Edison, the well-known American electrician, has been experimenting to find a process for extracting iron by means of magnetism. He had ascertained that in the northern portion of New Jersey there are immense quantities of primal gneiss charged with magnetic iron he believed could be profitably treated if his experiments proved successful. The experimental stage has been passed and Mr. Edison's company, it is stated, is now engaged in turning out iron at a profit of \$1.50 a ton.

50 years ago

Marshall Deputy To Stay Washington, Jan. 26. President Truman has persuaded the deputy Marshall Plan administrator, Mr. Howard Bruce, who recently submitted his resignation, to remain at his post. Last month Mr. Bruce charged Britain, Holland and Belgium with reselling to the United States at a profit aluminium and lead purchased with Marshall Plan funds.

BUILDING HOMES OF INDIVIDUALITY FROM SCOTLAND TO THE SOUTH COAST

FINANCIAL TIMES

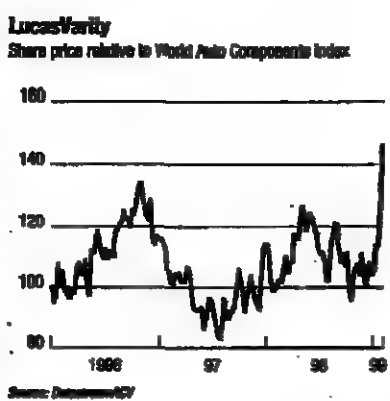
WEDNESDAY JANUARY 27 1999

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THE LEX COLUMN

Battle of the portals

Watch out Yahoo! and America On-Line. Here come Compaq Computer and Microsoft. Compaq's decision to float part of its AltaVista internet search engine is an attempt to cash in on internet fever.



Management, have been quick to offer dedicated high-yield funds, and with some success. But the markets - and especially the big investment banks that stand to benefit most from the growth of this sector - should not get too carried away with their own hype.

LucasVarity

Shareholders in LucasVarity are in danger of selling the company short. At 230p a share, an enterprise value of £3.7bn (£6.1bn) allowing for LVA's £300m cash, they would be accepting only 10 times 1998-99 operating profits.

Euro junk bonds

It is appropriate that a US company, Telichaim, has launched the first junk bond in Europe's single currency. Although a great future has been predicted for Europe's fledgling high-yield bond market, it is still a minnow in comparison with its transatlantic counterpart.

Victor Rice, chief executive, to move the company to the US. Add in LVA's dismal communications record - the company makes Marks and Spencer seem accessible - and LVA has failed to earn investors' patience.

Bid fever

Have UK institutional shareholders acquired a taste for shotgun marriages? A rash of unsolicited approaches and offers for out-of-favour smaller companies suggests bidders believe big investors have finally lost patience with their underperforming holdings.

King Hussein returns to US for medical checks

Fears over Jordan's stability after verbal attack on brother

By Judy Dempsey in Jerusalem

King Hussein of Jordan yesterday returned to the US for medical checks, hours after delivering a stinging attack on his brother, Prince Hassan, who was removed from the line of succession last weekend.

King Hussein said Prince Hassan had tried to send senior army officers into early retirement, including Field Marshal Abdul-Razek al-Kaabneh, chief of staff.

to stamp his authority on the Palace which had become a den of intrigue during his absence. The King accused his brother's supporters of instigating a smear campaign against Queen Noor, his American-born fourth wife, and Hamza, the Queen's eldest son and the King's favourite.

Japanese institutions hiding bonds losses with secret deals

By Gillian Triggs and Naoko Nakano in Tokyo

Japanese financial institutions are carrying out unorthodox and secretive securities trades to hide recent losses in Japanese government bond markets.

the rule that all bond trades need to be conducted within a per cent of the market price. However, officials at the Ministry of Finance and Bank of Japan admit that the rule change could encourage banks to conduct a form of 'wash' trades, the traditional Japanese practice of shuffling losses between accounts.

Many Japanese banks and life insurance companies are struggling to meet capital adequacy and solvency standards at the end of the fiscal year in March. The state of their bond portfolios has recently become critical, since many suffered large losses when 10-year JGB yields more than doubled to 2 per cent in December.

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FT WEATHER GUIDE

Europe today: Rain and sleet over the Low Countries will move east into Germany and southern Scandinavia. Snow in Austria and Switzerland will push south during the day.

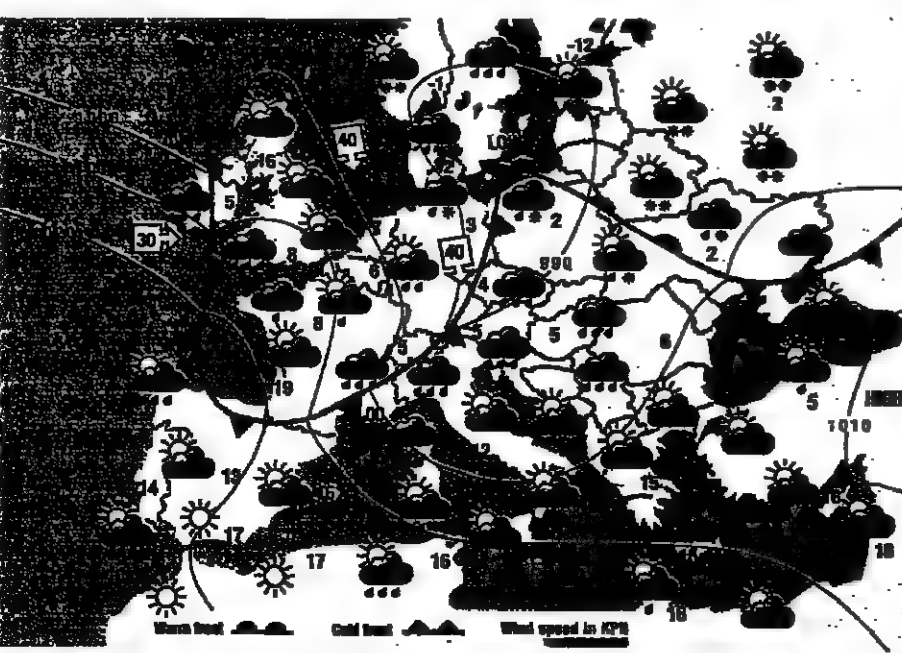


Table with columns for location, weather, and temperature. Includes locations like Madrid, Barcelona, Berlin, London, etc.

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COMPANIES & MARKETS

WEDNESDAY JANUARY 27 1999

Week 4

GO PUBLIC In the United States We make companies via 2 methods of becoming PUBLICLY TRADED IN THE U.S.A. SEC Registered Public Company Merger or "Customized Registered Spinoff" for companies that don't want to be U.S. corporations.

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INSIDE

Capitol Hill joins Cargill inquisition Cargill's proposed acquisition of Continental's grain trading operations, which would unite the world's biggest and second biggest grain exporters, has attracted the attention of the US agriculture secretary, the Justice Department, and the Commodity Futures Trading Commission.

Dublin learns to talk in euros Ireland has again confirmed its reputation as the European Union's most enthusiastic member, with 84 per cent of listed companies planning to report their 1998 interim figures in euros.

Bund market 'too small' The German government bond, or bund, market is too small to support the amount of derivatives based on it, says the Société des Bourses Françaises, operator of the French stock and derivatives exchange.

South African IT groups branch out Four years ago, Comperex, a South African information technology group, was wholly dependent on business in southern Africa.

LI6 approach recognises potential Nick Hodges, London International Group's chief executive, once said his greatest fear was that the company, which makes Durex condoms and Merigold rubber gloves, would be bid for before he had brought out its true potential.

Brazil worries curb investors Continuing concern about the financial problems of Brazil restrained enthusiasm for global equities. Investors remain concerned that Brazil's problems could spread to the rest of Latin America.

US nut output hit by bad weather Nut production in the US fell by a quarter last year, partly as a result of bad weather, said the US Department of Agriculture.

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Compaq set to spin off internet search service

Share offering could value AltaVista at up to \$2bn

By Louise Kohler in San Francisco Compaq Computer, the world's largest personal computer manufacturer, yesterday unveiled ambitious plans to become the leader in internet services, challenging Yahoo! and other first-generation "portal" websites. Compaq said it would spin off AltaVista, the internet search service it bought last year as part of its acquisition of Digital Equipment, and attempt to build it into one of the most popular sites on the world wide web.



Ambitious plans: Compaq chief Eckhard Pfeiffer

Bakrie moves to restructure debt

By Sander Thomas in Jakarta

Bakrie & Brothers, the listed arm of the diversified Bakrie Group, has agreed with its main creditors to swap up to \$1.5bn in debt for equity, raising the chances of it becoming the first large Indonesian company to restructure its debt. Chase Manhattan, American Express Bank and Dresdner Bank were among creditors in Singapore yesterday to agree in principle to swapping \$1.5bn in outstanding loans for 80 per cent of a new holding company with shares in five Bakrie companies, including 5.3 per cent of US-listed Iridium. They would also receive 90 per cent of the company's remaining assets.

UNILEVER AND JOHNSON & JOHNSON TO LAUNCH RIVAL PRODUCTS

FDA approves spreads that reduce cholesterol

By John Whisman, Consumer Industries Editor

The US Food and Drug Administration has told Unilever and Johnson & Johnson they can launch new types of spread that reduce cholesterol in the bloodstream. But the two companies may be restricted in the health claims they can make for the much hyped products. The decision, under a new procedure that requires the companies only to demonstrate the products are safe, could clear the way for a high-profile marketing battle between the new spreads, said to cut the risk of coronary heart disease by up to a fifth. Plans for their launch were previously put on hold after the FDA ruled they required formal approval - often a lengthy process.

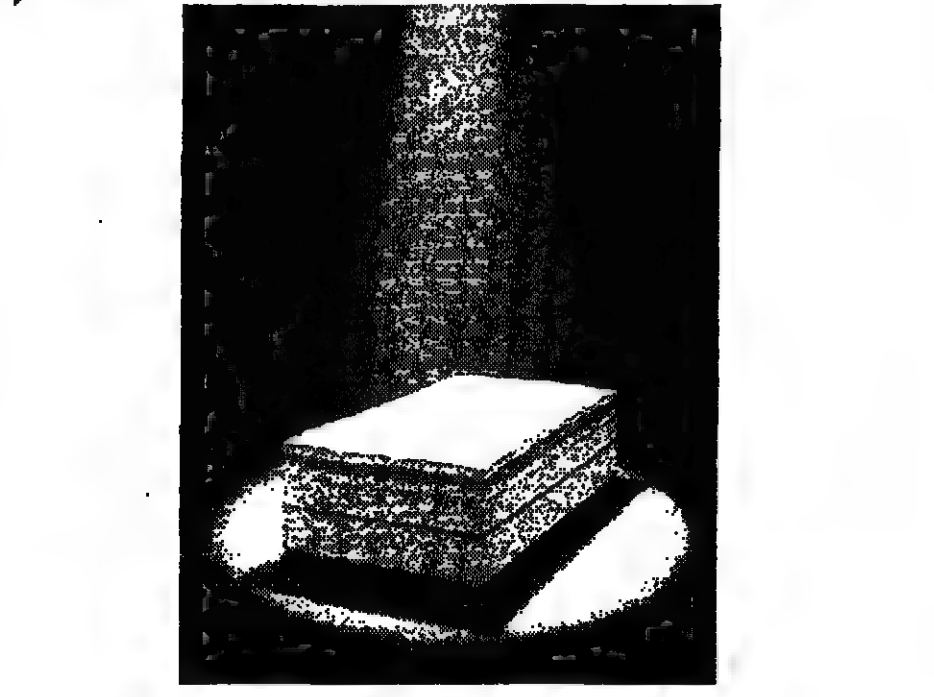


BARRY RILEY

If beta flags, try alpha

Are the markets uncomfortably high? A lot of institutional investors fear so. After an excited start to the year the main US indices have slipped back to more or less where they started. The same applies to London's FTSE 100. The conditions could be right, therefore, for long-short strategies to make progress. They have already made a moderate impact in the US - if more on endowments than pension plans - and now there is news of the award of a mandate in the UK. Caparo, the Midlands metals group, has appointed State Street Global Advisors to run a market-neutral strategy. This is a modest contract in scale, a 10 per cent allocation from a fund worth under \$200m (\$380m). But the much bigger Zeneca fund is said to be considering an allocation to a comparable non-traditional strategy. Quite a few UK pension plans are on the lookout for something different. This is partly because many of them have become disillusioned with the performance of the dominant traditional managers. And they are not persuaded that simply switching to another balanced manager will solve the problem of disappointed expectations. More fundamentally though, there are doubts about future market returns. True, it has been tremendously profitable to be "long only" when over the past 10 years average annual returns have ranged from 19 per cent on US equities and 15 per cent on UK equities to about 12 per cent on UK bonds. Pension funds have had no difficulty in achieving their target return of about 6 per cent real. From this point in time, however, future returns look more problematical. Real returns on long gilts are only about 2 per cent. On the formula of dividend yield plus trend economic growth, the prospective real return on UK equities is 4.5-5 per cent against the achieved 8 per cent over the past 80 years. Conceivably, the good times could roll on for another year or two. But more funds are ready to look at alternative strategies for the long run. Long-short strategies are not always completely symmetrical, because they are often not long, but a market-neutral formula has been chosen by Caparo. In the jargon, the approach accumulates alpha, or stock specific returns, and excludes beta, the market return, which arguably can be more economically captured by index-tracking funds. Moreover, by running short as well as long positions, the manager can double up the alpha for the same money. This is wonderful - so long, of course, as the alpha is positive. If it is negative the losses will mount. State Street is running the strategy in the US stock market (though it is working on a UK version). The aim is to beat the US Treasury bill return by 5-7 per cent a year. Comparable US hedge fund managers have achieved an average return of 14 per cent during recent years. Plainly many other approaches - including index-tracking - have achieved much more, but this is an absolute return strategy designed for hard times. Will such strategies catch on? Leading UK investment consultants like Watson Wyatt recommend that pension schemes should diversify part of their funds into alternative investment styles, including specialist niche products. Can take on board the full mumbo-jumbo of "portable alpha" and "absolute return" is another matter. Using familiar relative performance measures, trustees have been able to gain the comfort of the herd. Absolute returns are designed to be steady; however, they will be very volatile in relative terms, both against the market indices and the peer group. Very sophisticated monitoring will be required and not just the simple top quartile-type approach. If only the stock market would continue to return 15-20 per cent a year indefinitely. That would make life a lot simpler.

DUXIANA PRESENTS



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COMPANIES & FINANCE: THE AMERICAS

DISCOUNT BROKING CANADIAN INSTITUTION HOPES TO CAPITALISE ON RISING PRICES

Toronto-Dominion Bank ponders offering

By Edward Alden in Toronto
Toronto-Dominion Bank is considering a public offering of shares in its discount brokerage, the world's second largest, to capitalise on rising prices for shares of discount brokers such as Charles Schwab.

It is the first big strategic initiative by any of Canada's big five banks since their merger plans were thwarted by the government last month. Charles Bailie, TD chairman and chief executive, said yesterday the bank was "exploring the potential" for a limited public offering of shares, likely to be less than 30 per cent of the equity. The brokerage includes Waterhouse Investor Services, the third largest discount broker in the US, and Green Line, Canada's largest.

TD's main rival and follows a similar business model, has been trading at multiples of up to 75 times earnings. Canada's other banks are expected to look for similar expansion opportunities in the wake of Ottawa's rejection of the mergers.

Four of the country's five largest banks had proposed two separate mergers, arguing that they needed greater size to expand in the US and resist foreign competition at home. But the federal government said the proposals would have created excessive concentration in the domestic banking industry.

Duncan Gibson, TD vice-chairman, wealth management services, said yesterday it was likely the proposed share offering would be on US and Canadian exchanges. The bank has informally discussed the proposal with US underwriters but has not entered into any formal arrangement, he said. Mr Gibson said a share offering would enhance flexibility to make future acquisitions, particularly in the US. Since purchasing Waterhouse for \$775m in 1996, TD has bought five other discount brokers in the US, UK and Australia.

NEWS DIGEST

COMPUTING

IBM shares lifted by stock split

International Business Machines, the US computer group, yesterday declared a two-for-one stock split, its first since 1997 and just a day after Microsoft announced its own split. The move would increase the number of authorised common shares to 2.66bn, and IBM shares rose 33% to \$195.4 in early New York trading. A split had been widely anticipated since IBM's shares rose 75 per cent in 1998 before hitting a 52-week high of \$199.4 last week. IBM then reported lower-than-expected sales growth in its fourth quarter, and the shares dropped \$17.4 last Friday. IBM expects the record date for the split to be May 10, with distribution on or about May 26. AP-DJ, New York

MACHINERY

Case sees sales downturn

Case, the US manufacturer of construction and farm equipment, yesterday forecast an 8-10 per cent decline in worldwide sales of agricultural equipment in 1999 and a 2-5 per cent decline in construction equipment sales, warning that the outlook for its markets was "decidedly mixed". The comments came as the group tumbled into the red in the final three months of 1998, with a net loss of \$196m, compared with last time's \$121m profit, or sales down from \$1.75bn to \$1.5bn. Part of that was due to a \$96m charge to cover the loss of about 2,500 jobs and the closure of two plants. Case said it expected a further charge in 1999 of about \$30m-\$40m for about 800 redundancies. The fourth-quarter result translated into losses per share of \$1.37. Although higher than the consensus forecast of about \$1.27, Case said this result reflected accounting factors and the underlying result was in line with market expectations. Case shares eased 3% to \$20.4 in early trading.

Texaco tumbles to \$213m loss

Texaco, the fourth largest US oil company, yesterday posted a fourth-quarter net loss of \$213m, or 43 cents a share, after net special charges of \$305m. This compares with net income of \$823m, or \$1.12, for the fourth quarter of 1997, after net special benefits of \$157m. Operating earnings of \$92m, or 15 cents a share, were down from \$472m, or 85 cents, in the year-ago period, but were in line with analysts' expectations.

Tenneco sale to help reduce debt

By Nikkai Tait in Chicago
Tenneco, the US automotive and packaging group, yesterday announced it was selling its container-board business for \$2.2bn. It described the move as "enabling" - allowing it to pay down debt and proceed with acquisitions or other deals to enhance the remaining business units.

The business is being sold to Madison Dearborn Partners, a Chicago-based investment group. Tenneco is to retain a 46 per cent equity interest in the operation, which it said was valued at about \$200m. Dana Mead, Tenneco's chairman, suggested that the business might ultimately be floated through an initial public offering. He said proceeds from the sale would help reduce debt. The consequently stronger balance sheet would free the group to pursue its aims for its automotive and specialty packaging businesses. "I've said we are looking for acquisitions which extend our product lines," he said. Tenneco first mooted splitting its packaging and automotive operations, or divesting main operations, in 1998. The container-board unit had revenues of about \$1.5bn last year, and a 6 per cent domestic market share. It will be renamed Packaging Corp of America and be headed by Paul Stecko, who will step down as Tenneco's president.

PwC maintains growth

By Jim Kelly, Accountancy Correspondent
PwC, the professional services firm created last year, yesterday issued the merged business's first results, showing annualised 84 per cent growth in management consulting revenues in its first six months. The results indicate that PwC's strong combined results for 1997-8 - total revenue up almost 20 per cent at \$15.3bn - are being broadly sustained after the merger. Management consulting last year grew at 41 per cent to \$3.9bn.



Scott Hartz, 34 per cent growth in management consultancy said, and that trend had continued. "It's the push for globalisation - there is a bit of catching up to do, and there's the euro," he said. The US saw 38 per cent growth after the merger, and the UK 30 per cent. Mr Hartz said the growth of PwC's management consultancy showed that offering the service from within a professional firm was more efficient than splitting off the business. He confirmed that PwC intended to keep the practices within the firm. Andersen Consulting, its biggest rival, is separate from Arthur Andersen. The two sister firms are locked in an acrimonious merger.

Raytheon rise meets forecasts

By Christopher Purvis in Los Angeles
Raytheon met market expectations with a 51 per cent increase in net income to \$969m in the fourth quarter of 1998, and ended the year with its debt burden down 12 per cent at \$6.5bn. The aerospace and engineering group, which recently started a fresh round of job cuts and restructured its civil engineering arm, said earnings per diluted share for the quarter, of \$1.08, were achieved on record revenues of \$5.8bn. Excluding special charges in the same period of 1997, sales and operating profits surged 36 per cent and 73 per cent respectively. Daniel Burnham, chief executive, said plans to increase US defence spending were expected to benefit the company, which is strong in areas targeted by the Pentagon, such as defence missiles.

Innovative financing solutions for the Euro money market.

<p>EURO 500,000,000</p> <p>Federal State of Saxony-Anhalt Zero Coupon State Treasury Notes</p> <p>Sole Arranger</p> <p>January 1999</p>	<p>EURO 5,000,000,000</p> <p>European Investment Bank Global Commercial Paper Programme</p> <p>Joint Arranger</p> <p>December 1998</p>	<p>EURO 5,000,000,000</p> <p>KfW Kreditanstalt für Wirtshaftshilfe Multi-Currency Commercial Paper Programme</p> <p>Dealer</p> <p>December 1998</p>
<p>EURO 5,000,000,000</p> <p>Republic of Finland Finnish Treasury Bill Programme</p> <p>Joint Arranger</p> <p>December 1998</p>	<p>EURO 5,000,000,000</p> <p>Republic of Italy Italian Treasury Bills Programme</p> <p>Joint Arranger</p> <p>December 1998</p>	<p>EURO 3,000,000,000</p> <p>European Bank for Reconstruction and Development Global Commercial Paper Programme</p> <p>Dealer</p> <p>October 1998</p>
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Goldman Sachs

Drug groups' results on target

By Tracy Corrigan in New York
Four more US pharmaceutical and healthcare companies reported fourth-quarter earnings in line with analysts' estimates. Merck's net earnings of \$1.4bn were up 13 per cent, while Johnson & Johnson reported earnings of \$658m - up 10 per cent before special charges. Viren Mehta, analyst at Mehta Partners, said J&J had exceeded top-line growth expectations, with sales up 13.1 per cent to \$6.3bn.

Coca-Cola stays upbeat

By Richard Waters in New York
Douglas Ivester, chairman of Coca-Cola, yesterday declared the US soft-drink maker's global business to be stronger than ever - despite news that its revenues and earnings had fallen last year for the first time in memory. Coca-Cola's long global expansion, which had enabled it to deliver an unbroken string of improved earnings, came to an end as revenues slipped by \$52m to \$18.5bn in 1998. After-tax profits for the year fell 14 per cent to \$3.53bn, with earnings per share slipping 13 per cent to \$1.42.

Nortel lifted by Bay buy

By Scott Marston in Toronto
Nortel Network's fourth-quarter results beat expectations, with analysts saying they indicated the Canadian communications networking group was successfully integrating the recently acquired Bay Networks. Quarterly revenues in its enterprise networks unit, which included most of Bay's data networking revenues, increased by 63 per cent. John Roth, Nortel chief executive, declined to break down results from Bay, but said the "bulk" of the increase was provided by Bay, the US data networking group acquired last year for about US\$7bn.

Kitchens revamp hits McDonald's

By Nikkai Tait
The costs of revamping its kitchens affected the fourth quarter and full-year profits at McDonald's, the fast-food chain. But the underlying earnings increase of about 10 per cent in the final quarter and a similar figure for the full year was in line with Wall Street expectations. Jack Greenberg, chairman, said yesterday the company would continue growing operations in all markets - although he conceded that some overseas countries remained difficult.

سكواتن الأصيل

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WEDNESDAY JANUARY 27 1993

NEWS FRONT

COMPUTING
IBM shares lifted
by stock split

International Business Machines Corp. shares rose in early trading after the company announced a 2-for-1 stock split. The split was effective Jan. 27, 1993. IBM shares were up 1 1/2% to \$100.75 in early trading. The company's stock price had been trading at \$50.38 before the split. The split will result in 1.5 billion shares outstanding. IBM reported a 10% increase in revenue for the fourth quarter of 1992, but a 15% decline in earnings. The company's earnings per share were \$1.10, compared with \$1.30 in the same quarter last year. IBM's revenue for the fourth quarter was \$10.1 billion, compared with \$9.2 billion in the same quarter last year. The company's revenue for the first nine months of 1992 was \$29.1 billion, compared with \$27.1 billion in the same period last year. IBM's earnings for the first nine months of 1992 were \$1.1 billion, compared with \$1.3 billion in the same period last year. IBM's earnings for the first nine months of 1992 were \$1.1 billion, compared with \$1.3 billion in the same period last year.

Case sees sales downturn

Case, the U.S. manufacturer of heavy-duty equipment, yesterday said it expects a sales downturn in 1993. The company's revenue for the first nine months of 1992 was \$29.1 billion, compared with \$27.1 billion in the same period last year. The company's earnings for the first nine months of 1992 were \$1.1 billion, compared with \$1.3 billion in the same period last year. Case's revenue for the first nine months of 1992 was \$29.1 billion, compared with \$27.1 billion in the same period last year. The company's earnings for the first nine months of 1992 were \$1.1 billion, compared with \$1.3 billion in the same period last year.

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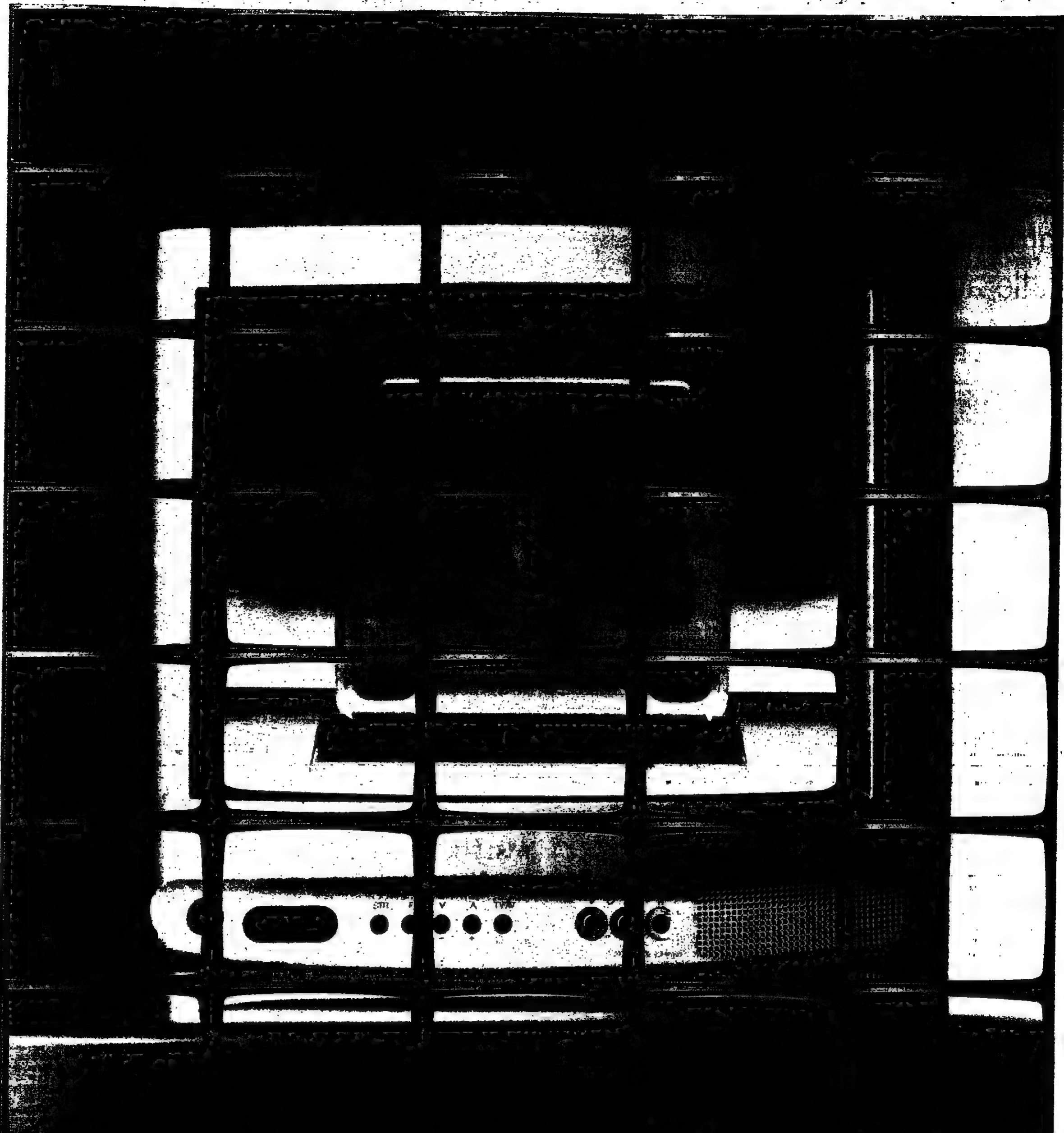
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We already believe in a fully integrated Europe.

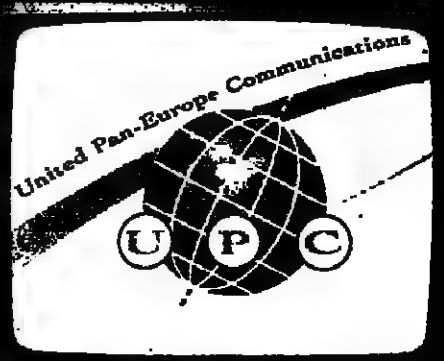
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VOICE VIDEO DATA



BANKS DECISION PUTS PHILIPPINE INSTITUTION IN RED BUT ANALYSTS PRAISE IT FOR 'BITING THE BULLET'

PNB unveils heavy provisions to tackle bad loans

By Tony Tassell in Manila

Philippine National Bank, one of the country's largest, has started the long-awaited clean-up of its troubled balance sheet, reporting heavy provisions yesterday for non-performing loans.

The government-controlled bank, considered one of the largest problems in the Philippine banking system, made provisions of 10.3bn pesos (\$268m) in its 1998 results.

The decision saw the bank dive into the red in 1998 with a net loss of 5bn pesos, but analysts said it indicated PNB was at last "biting the bullet" and cleaning up its balance sheet ahead of the planned sale of government's 45.6 per cent stake over the next 18 months.

At the operating level, net income was 1.1bn pesos before taxes.

Ismael Pili, analyst with Indosuez WI Carr, said the

higher-than-expected loan provisions were "heartening", as they signalled PNB had at last recognised the extent of its problems instead of window-dressing its accounts. He added that PNB's balance sheet remained a source of concern.

While the Philippine banking system is in better financial shape than most of its regional peers in the wake of the Asian economic crisis,

PNB has been a troubled exception. Its non-performing loan ratio in November was 14 per cent, higher than the average for the industry's 63 commercial banks of 11.97 per cent. Bank officials have since indicated that the non-performing ratio has risen to about 16 per cent.

Mr Pili said, however, that the ratio did not take account of foreclosed loans or loans under restructuring

if these were added, the NPL ratio would rise to 29 to 30 per cent.

The non-performing loans represent a legacy of poor lending by PNB, which has often been seen as a conduit of cronyism. The bank's problems are such that the International Monetary Fund singled out the bank's reform as a condition for the government's borrowing programme. Under the IMF agreement, the government

stake in PNB has to be sold by July next year.

Benjamin Palma Gill, president of PNB, said yesterday that the bank would also raise 10bn pesos in tier-one capital before the end of the second quarter "to put the company on a more competitive footing".

Analysts said PNB would need to raise capital quickly to meet the minimum capital adequacy requirements of the central bank.

Nick Cashmore, analyst with ABN Amro, said that on the assumption that the bank's non-performing loans had risen to 16 per cent since November, PNB would have a capital-adequacy ratio of about 8.2 per cent at the end of 1998 compared with a regulatory minimum of 10 per cent.

He said that if the bank raised 10bn pesos in tier-one capital, its adequacy ratio would rise to about 13 per

cent. However, PNB needed to make substantial further NPL provisions.

Mr Cashmore said the 10.3bn in loan provisions announced yesterday compared with non-performing loans of about 19.6bn, excluding foreclosed loans and loans under restructuring.

"The loan provisions are a step in the right direction but there is still some way to go," he said.

Bargains fail to fire in battle against recession

Japanese retailers are trying to lure customers with price cuts but it is a risky strategy, writes Alexandra Harney

On the first floor of a department store in central Tokyo, a man in a red and black striped jacket is shouting and holding up black leather purses. "Authentic Italian handbags at big discounts - get them now before they disappear!" A crowd, mainly older housewives in thick winter coats, picks through the rapidly shrinking pile with keen determination.

Welcome to the retail battleground of Japan's longest post-war recession. As rising unemployment and falling incomes have kept consumers at home, retailers have been cutting prices by 5 to 30 per cent and awarding customers discount coupons in an effort to lure them back.

Some have been scrambling to revive stagnating cash flows by closing unprofitable stores and selling the property to the highest bidder.

Last December, Tokyu Department Store, a member of the Tokyu Industrial group, announced it would shut its flagship store in Nishonishi, not far from Tokyo railway station. Similarly painful moves by Mitsukoshi, the second-largest

department store, underscored the depth of the crisis in Japan's retail sector.

For consumers, the recession looks like a good bargain. At the Tokyu store, two middle-aged women pause doubtfully in front of a mountain of handbags from European and Japanese designers. When asked if they were shopping often, both covered their mouths in embarrassment. "God, no. I don't have any money!" one exclaimed.

The danger for the Japanese economy is that the price cutting could push the country deeper into recession.

Lower prices have not been matched by increased sales volumes, and have brought some retailers closer to bankruptcy.

At Daiso, the country's leading supermarket, sales fell during its three price-cutting campaigns in November, December and January, according to a report by Salomon Smith Barney. Although turnover jumped 60 per cent during one campaign on its Yokohama, the supermarket chain, results at successive sales were considerably less impressive.

"The problem is that

people bought six months of underwear and they are not going to buy it again for four or five months," says Mike Allen, retail analyst at ING Barings. He believes the sales threaten to choke retailers' cash flow if the discounting continues.

Retailers are already in a difficult position. Sales at department stores and supermarkets have fallen steadily every month for nearly two years on a year-on-year basis.

The Japan Chain Stores Association reported this week that sales at supermarkets fell 0.3 per cent against the previous year, the first yearly drop since records began in 1976. Sales fell 2.2 per cent in December alone, it said.

Department store sales were also down 5.5 per cent year-on-year last month, according to an industry group.

The prolonged downturn has devastated retailers' balance sheets. Daiso, which posted losses of ¥983m (\$8.6m) in the first six months of 1998, had liabilities of ¥2,600m in February 1998 - equivalent to 30 times equity, according to Byron



Begging a bargain: shoppers at the Tokyu Department Store in Nishonishi, which is closing. Reuters

Gill of Salomon Smith Barney. Last week's resignation of Isao Nakaguchi, Daiso president, who had run the company for 40 years, is evidence of the pressure banks are putting on retailers to clean up their balance sheets, analysts say.

While most indicators suggest that prices are still fairly stable, economists say

the worst may be yet to come. The combination of the strengthening of the yen since last October and dismal corporate earnings is putting additional downward pressure on prices.

"While a range of things are supporting prices right now, there are risks on the downside, and maybe towards March there could

be increased pressure [on prices] as financial institutions move to shore themselves up," says James Malcolm, economist at J.P. Morgan in Tokyo.

With consumers counting their yen and waiting for the next bargain sale, a recovery in the Japanese economy this year seems increasingly unlikely.

Pitel suspends debt payments

By Tony Tassell

The outlook for Filipino Telephone appeared bleak yesterday after the country's second largest cellular telecommunications operator revealed it had suspended payments on its 34bn pesos (\$877m) of debt.

Pitel, 58 per cent-owned by Philippine Long Distance Telephone, said that it had suspended payments on its debt burden on January 6 and was seeking a financial restructuring to stay afloat.

The move is likely to cause embarrassment at First Pacific, the Hong Kong conglomerate that recently took a controlling stake in PLDT. Although PLDT has not guaranteed any of Pitel's debt, analysts said the country's dominant fixed line provider was coming under pressure to provide some support to its subsidiary.

Michael Lonergan, Pitel chief financial officer who joined the company after First Pacific acquired the PLDT stake, said the HK conglomerate had been surprised by the extent of the problems. He admitted that it had not carried out due diligence on Pitel as the PLDT acquisition had been hostile.

He said that Pitel was not yet technically in default on its debts but soon would be.

"Effectively, payments on all debt are now suspended," he said.

Mr Lonergan said the 34bn pesos in debt was split roughly equally between bank loans, convertible bonds and a debt to Marubeni, the Japanese conglomerate. Pitel would not be able to make a payment to Marubeni due on Thursday. The next payment on the convertible bonds is due in July.

Pitel began discussions with creditors last week and hopes to show First Pacific a business revival plan before the Hong Kong group makes a decision on any further investment in the company.

Neel Sinha, vice-president at SG Securities, said creditors would have little choice but to accept some form of debt restructuring. "It will be very hard for creditors to walk away, given the depressed market for second-hand transmission assets," he said.

John Noe Ravallo, chief economist with the Bankers' Association of the Philippines, said Pitel's suspension of debt repayments would have little impact on the country's banking system.

He said the bank-loan proportion of the 34bn pesos in debt would account for at most 8.7 per cent of outstanding loans in the banking system.

Randfontein Estates Limited
(Formerly The Randfontein Estates Gold Mining Company, Witwatersrand, Limited)
(Incorporated in the Republic of South Africa)
(Registration number 01/00251/08)

REPORT FOR THE QUARTER ENDED 31 DECEMBER 1998

- Company resumes payment of dividends
- Return on equity of 20%
- Gold production increases 1.5% to 6 670kg
- Grades from both underground and surface operations maintained
- Deepening of Doornkop main shaft commenced in October 1998

	Quarter ended	Half year to	Half year to
	31.12.98	30.06.98	31.12.98
Ore milled - metric tons (000)	2 214	2 301	4 615
Yield - grams per metric ton	2.88	2.98	2.87
Gold production - kilograms	6 670	6 870	13 240
Ore milled - short tons (000)	2 561	2 536	5 087
Yield - ounces per ton	0.084	0.083	0.084
Gold production - ounces	214 445	11 230	425 675
Cash costs of production			
- per metric ton milled	R136.56	R138.37	R137.97
- per kilogram produced	R46 419	R47 782	R48 093
- US\$ per ounce	Rm	Rm	Rm
Profit from gold (000)	22.7	65.3	97.0
Profit before tax (000)	40.1	77.0	117.1
Profit after tax (000)	30.9	49.5	80.4

COMMENTS

Sold production
Gold production for the quarter increased by 100kg. Revenue from gold decreased from R391.5 million to R372.4 million due to a strengthening of the rand which was marginally offset by an increase in US dollar gold prices; this resulted in unit gold prices declining to R54 697/kg from R58 014/kg.

Cash costs
Cash costs increased slightly from R47 782/kg to R48 419/kg due to higher tonnages being mined from underground sources at slightly lower grades.

Profit from gold
Despite the reduction in pre-tax profit from gold, the profit level for the quarter provides an annualised return on equity of 20%.

Doornkop South Reef
728 metres of development was completed during the quarter. The main shaft deepening, commenced in October 1998, is on schedule.

Dividend
The consistent profits and positive cash flows now being generated have resulted in the resumption of the payment of dividends.

Outlook
Gold production is expected to continue at current levels. The excellent underground and high open-pit grades should be sustained. The Business Process Re-engineering programme designed to increase productivity has now been implemented throughout the mine. Together with the cost reductions, this should have the effect of reducing costs in the quarter to June 1999.

Johannesburg 26 January 1999

All figures are unaudited. The quarterly report has been mailed to shareholders. Copies of the report may be obtained from the London Secretaries, JCI London Limited, 6 St James's Place, London SW1A 1NP.

WESTERN AREAS LIMITED
(Formerly Western Areas Gold Mining Company Limited)
(Incorporated in the Republic of South Africa)
(Registration number 58/0026/08)

REPORT FOR THE QUARTER ENDED 31 DECEMBER 1998

- Profit from gold increases
- Gold production increases for third consecutive quarter
- Cash costs of production reduced by 4.2%
- South Deep project development on schedule

	Quarter ended	Half year to	Half year to
	31.12.98	30.06.98	31.12.98
Ore milled - metric tons (000)	378	370	748
Yield - grams per metric ton	8.29	8.19	8.23
Gold production - kilograms	3 134	3 019	6 153
Ore milled - short tons (000)	417	408	825
Yield - ounces per ton	0.242	0.238	0.240
Gold production - ounces	100 781	97 063	107 824
Cash costs of production			
- per metric ton milled	R367.71	R377.78	R372.80
- per kilogram produced	R44 330	R46 299	R45 307
- US\$ per ounce	R239	R232	R235
Profit from gold (000)	191.1	179.2	380.3
Profit before tax (000)	171.6	166.4	338.0
Profit after tax (000)	70.2	71.2	143.4

COMMENTS

The steady improvement achieved by the mine during the previous three quarters was maintained.

Gold production
A 3.8% growth in gold production, increased hedging profits and a rise in US dollar gold prices, offset by a strengthening of the rand resulted in revenue from gold increasing by R0.6 million.

Cash costs
Increased tonnages at slightly higher grades and a reduction in costs from R139.8 million to R139.0 million reduced cash costs from R46 299/kg to R44 350/kg.

South Deep shaft sinking
Very good progress on the sinking of the main and ventilation shafts was maintained throughout the quarter.

Joint Venture
The company has signed a Memorandum of Understanding with Pacer Dome Inc. which will result in Pacer acquiring, for a consideration of US\$235 million in cash and a gold royalty, a 50% interest in a Joint Venture which will own, operate and then develop the company's mining assets.

Barnato Exploration Limited
The Prestea mine was closed and the main focus is now on developing Prestea's surface potential. Exploration boreholes for further resource definition should be completed by August 1999.

Outlook
The excellent results achieved should be sustained. Underground grades are excellent and values are improving monthly. Once the transaction with Pacer has been finalised, it is the intention to pay a special dividend and resume the payment of regular dividends.

Johannesburg 26 January 1999

All figures are unaudited. The quarterly report has been mailed to shareholders. Copies of the report may be obtained from the London Secretaries, JCI London Limited, 6 St James's Place, London SW1A 1NP.

Moody's drops Mazda to junk bond status

By Alexandra Harney in Tokyo

Japan's battered auto industry was dealt another blow yesterday when Moody's, the US credit rating agency, lowered its rating on Mazda's long-term debt to junk bond status.

The rating change from Baa3 to Ba1 marks the first downgrade of a Japanese carmaker to speculative status. Moody's is also reviewing Mazda rivals Nissan and Mitsubishi Motors, both rated Baa3. Last year it downgraded Toyota from Aaa to Aa1.

Moody's said the move was prompted by concerns about Mazda's high gearing and problems at its dealership network amid a deteriorating domestic car market and financial system. Mazda was unlikely to be able to reduce the considerable debts at its dealerships with higher sales, it said.

The car group is 33.4 per cent owned by Ford Motor of the US. However, this relationship offered Mazda no protection from interest rate increases and the turmoil in the financial system because the US carmaker would not take responsibility for Mazda's debt burden, Moody's said.

The rating includes Mazda's euro bonds, Japanese bonds and shelf registration worth \$2.8bn, said Takahiro Morita, senior vice-president of corporate finance at Moody's in Tokyo.

Analysts said the downgrade was unnecessarily harsh, given the progress Mazda has made in recent years in reducing its interest-bearing liabilities and lowering costs.

Mazda was particularly sensitive to currency rate fluctuations because of its heavy dependence on the US market, they said.

Mazda recorded the smallest sales decline of any Japanese carmaker last year and expanded its market share despite the largest collapse in car sales since industry records began.

It expects to post its first consolidated profits in five years in the year ending in March.

Mazda's net debt to equity ratio is down from a high of 303 per cent in 1994 to about 178 per cent this year, according to HSBC Securities and company reports. Analysts said that it was unlikely to have trouble meeting its interest obligations because of its improving cashflow.

The shares climbed 1.5 per cent to ¥462 after the downgrade was announced.

James Miller, Mazda president, said last week that a downgrade by Moody's would not affect its restructuring plans.

Cost cuts help Petron into black

Petron, the Philippines' largest oil group, returned to the black for 1998 with net income of 3.7bn pesos (\$96m), compared with a loss of 631m pesos the previous year, writes Tony Tassell.

The performance was at the top end of market expectations, and analysts said the turnaround reflected the benefits of cost cuts, the stabilisation of the peso and fall in crude-oil prices.

Sales revenue, however, slipped from 61bn pesos to 58bn pesos. This reflected a 6.4 per cent fall in sales volume, from 61.4m barrels to 57.5m barrels.

Gasoline and LPG sales continued to grow, but demand fell from crisis-hit industrial customers, notably airlines.

The group also announced capital expenditure worth 2.1bn pesos in 1999 and declared a dividend of 30 centavos per share.

Japan 'premium' falls despite rating gloom

By Gillian Triff and Julia Hess in Tokyo

The Japan premium, or the extra price that Japanese banks need to pay to raise money in international markets compared with US rivals, fell yesterday even though several banks were downgraded by Moody's, the rating agency.

The decline left the premium running at around 20 to 30 basis points, less than half its level last autumn, traders said yesterday.

The swing hints at rising confidence in the banking sector fuelled by new signs of government reform.

In particular, some investors and consumers have been encouraged by hints that the banks are starting to tackle their long-running problems through mergers, had loan write-offs and equity issues.

The Financial Supervisory Agency, Japan's banking watchdog, yesterday indicated that it would impose tougher bad loan reserve requirements this spring.

Banks will be forced to make reserves worth 70 per cent for risky "class three" loans to borrowers that have defaulted. They will also need to make 15 per cent reserves for "class two" loans, which include borrowers yet to default but in financial trouble.

The banks have reserve ratios of only 52 per cent and 1.6 per cent for these loans respectively, so tightening the requirements will force banks to raise even more capital.

However, the Nikkei newspaper yesterday reported that the banks would issue an extra ¥2,000bn (\$17.5bn) worth of additional equity this year. The banks are also expected to apply for at least ¥6,000bn worth of public funds to boost their capital bases.

Some analysts fear these reforms may do little to help boost the banks' profits. Moody's yesterday downgraded the credit ratings of Bank of Tokyo-Mitsubishi, Sanwa Bank, Sumitomo Bank and Toyo Trust, due to

the deterioration of the asset quality, poor profitability and erosion of the banks' economic capital.

The downgrading is part of a series of credit reviews in the banking sector by Moody's. Mitsubishi Trust, Dai-ichi Kangyo Bank and the Industrial Bank of Japan have been downgraded this year. Mizuho Trust, Tokai Bank and Asahi Bank are under review.

Moody's warned that despite the progress made by the banks to clean their balance sheets of non-performing loans, the increasing number of borrowers with financial troubles creates new problem loans.

The stock market seemed unaffected by the news. BTM gained ¥16 to ¥1,370. Sumitomo was up ¥17 to ¥1,413. Toyo Trust rose ¥2 to ¥533, while Sanwa Bank lost ¥7 to close at ¥1,075. The bank sector has been a strong performer in past weeks, with investors enthusiastic about the announcements of mergers and tie-ups in the industry.

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IRISH PERMANENT BUILDING SOCIETY

6 1/2% Bonds 1999

NOTICE IS HEREBY GIVEN that the final dividend on the Irish Permanent Building Society's 6 1/2% Bonds 1999 is payable on 10th February 1999. The record date for this purpose (as defined in Article 4 of the Terms and Conditions of the Bonds) will be 10th January 1999 and payments will be made on 10th February 1999. Payments will be collected through Bank of Ireland, Registration Department, 4th Floor, Henry's House, Bankbridge, Dublin 4, who are Registrar for the issue.

Plan O'Sullivan
Secretary

سكرا من الاموال

COMPANIES & FINANCE: EUROPE

TECHNOLOGY GERMAN SOFTWARE GROUP STRIVES TO OVERCOME JAPANESE DISAPPOINTMENT

SAP shares rise on hopes of Asian growth

By Uta Harnischfeger in Frankfurt

Shares in SAP, the German software group that is a bellwether for Europe's technology sector, yesterday rose 5.7 per cent after it said it hoped it could grow in Asia this year.

business management software. The company said its four-year sales and profit figures were almost fully in line with its January forecast.

Yesterday's report sparked buying particularly among those investors who had wanted to wait and see whether SAP had more bad news.

licences and new software releases in the last three months compared with the fourth quarter of 1997. They focus on this because product sales are SAP's "bread and butter" business.

Referring to the recent slowdown in Japan, where roughly two-thirds of all orders were cancelled in the fourth quarter, Mr Plattner said that he had "never before seen such a complete halt of investments."

Mr Plattner noted good recent earnings data from Intel and Microsoft. In 1998, SAP sales grew 28 per cent in the Americas, 20 per cent in Europe and Africa but declined 22 per cent in the Asia Pacific region.

IPO is launched for Air France

By David Owen in Paris

The French government yesterday launched the partial privatisation of Air France, indicating that more than 17 per cent of the national carrier's capital would be floated in coming weeks.

Pre-placement begins today and is set to last until about February 9. The government, which stands to raise some FF4bn (\$60m, \$716m) from the long-awaited sale, said the price range for institutional investors could be between €12 and €14.2.

All told, a series of operations could cut the French state's stake in the airline to 83 per cent in due course.

Last night's announcement came as it emerged that the planned stock market flotation of a 20 per cent stake in the company to be formed by the merger of Aeroportale, the state-controlled French aerospace group, and the defence interests of Lagardere is now unlikely to be completed before May.

This assessment came from an individual involved in top-level talks between Lagardere, the private-sector defence-to-publishing company, and the French government aimed at finalising an agreement.

The individual involved in the Lagardere talks also indicated, however, that another important detail of the planned sale had been resolved: the initial public offering will include the shares in the new group held by Consortium de Réalisation, the state-backed vehicle set up to sell assets removed from Crédit Lyonnais's balance-sheet. CDR has a 17 per cent stake in Aeroportale.

In what would be an innovative move, he said the final price paid to CDR would be adjusted to reflect the performance of the shares, positive or negative, in the early months of trading.

A sale of CDR's holding would keep to a minimum the number of shares the state would contribute to the flotation, while correspondingly reducing the proceeds the state would derive from it.

According to estimates within the companies, which emerged last month, the combined value of the new group would be about FF45bn, which would put a value of some FF35bn on the stake to be floated.

Under a plan unveiled in July 1998, Lagardere is to own between 30 and 33 per cent of the combined group, with the French state's share falling below a majority.

One executive with knowledge of the current talks indicated yesterday that they were progressing satisfactorily.

Foreign earnings beckon for South African IT groups

The home market is not big enough for ambitious companies, writes Victor Mallet

Four years ago, Compaq, a South African information technology group, was wholly dependent on business in southern Africa.

Now, after a string of acquisitions, it has a market capitalisation of R17bn (\$2.5bn), makes 70 per cent of its profits in Europe and is planning secondary stock exchange listings in London and possibly Frankfurt.

Its local rivals have taken a similar route to foreign earnings, and two of them - Dimension Data and Datatec - want to move their primary listings from Johannesburg to London or New York.

Their stories are typical of what is happening in South Africa's IT sector. As elsewhere, the country has seen very rapid growth in internet use, IT services and the number of IT companies. "There is a frenzy for value-added services: systems integration, customised software and electronic commerce," says Stéphanie Leclercq, analyst at Standard Equities in Johannesburg.

Within weeks, the Johannesburg Stock Exchange is expected to create a new IT sector to cater for the dozens of computer and software companies now lumped together with various manufacturers under "electronics and electrical".

The South African IT market of about \$5bn a year is nevertheless tiny by world standards. Several of the country's larger IT groups, including Compaq - a name adopted from the German systems group it took control of last year - have outgrown their home base and moved into Asia, Europe and North America.

"A couple of South African companies have decided to move out of South Africa in a relatively aggressive way," says Rour Marnix, Compaq chairman. He describes electronic commerce and data security as "a major thrust" for his company and says the European Union IT market is a hundred times larger than South Africa's.

Ms Leclercq says that as the country's IT groups reach a certain critical mass, the size of the South African market begins to limit their growth. "The foreign listings are useful if they want to raise capital for their expansion offshore."

South Africa's leading IT stocks appeal to international emerging market funds because they carry an emerging market label while providing the security of hard currency earnings from their foreign operations. But company directors want to attract European and US technology funds rather than emerging market specialists to their shares.

Datatec, which makes most of its money overseas, and Didata, whose foreign operations account for nearly 30 per cent of earnings, both want to move their primary stock exchange listings to London. Datatec, advised by Merrill Lynch, is also looking at the possibility of a Nasdaq listing in the US.

"Eighty per cent of our business is in Europe and North America," says Jens Montanana, Datatec executive chairman. "Our origins are here but we're not really - in terms of the base of our business - a South African company."

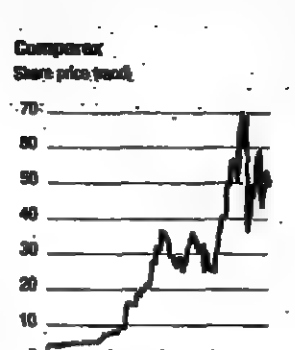
Datatec bought Weston, a US equipment distributor, for \$170m last year. In the UK, where its London customers include Deutsche Morgan Grenfell and J.P. Morgan, it now runs an operation with 1,000 staff and £200m (\$300m) in turnover.

However, the ambitions of such companies to move their domiciles abroad may yet be thwarted by the South African government. The ruling African National Congress has approved moves to London by the Anglo American conglomerate and South African Breweries but is anxious not to see a flood of white capital and expertise moving overseas.

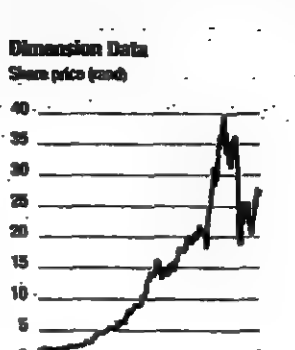
Another issue raised by plans to list in London is the way in which South African IT companies have accounted for their numerous acquisitions. Present South African accounting rules, due to be reformed soon, allow goodwill write-offs that make the earnings of South African companies look better than when accounts are restated for their UK or US primary listings.

"The fact that they could do this has fuelled this boom," says one Johannesburg stock analyst. "People say it's easy money, and it's made acquisitions look attractive. Everybody's jumped on the bandwagon, but they won't be able to repeat this formula elsewhere and the model won't work in the future because of the change in accounting."

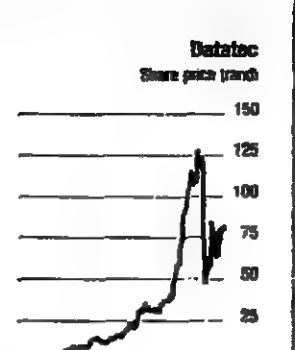
Mr Montanana acknowledges that restated accounts would show lower absolute earnings, although they would not necessarily change the steep upward curve of profits growth over the years. The effect of restatement, he says, "is not wild".



Compaq Share price (rand)



Dimension Data Share price (rand)



Datatec Share price (rand)

NEWS DIGEST

TELECOMMUNICATIONS

Equant to raise \$2.8bn in secondary offering

Equant, operator of the world's most extensive international data and voice network, is raising about \$2.8bn through the largest secondary offering in the sector so far. The company, formerly Sita Telecommunications Holdings, raised \$810m when it came to market in July 1998. It now intends to offer 35m shares representing 17.4 per cent of the company's share capital. Last Friday, the company was capitalised at \$15.2bn.

Equant is owned by the Sita Foundation (59.8 per cent), a group of institutional investors led by Morgan Stanley Capital Partners (25.5 per cent) and public shareholders (14.9 per cent). The Sita Foundation and certain Morgan Stanley funds will receive all the net proceeds from the offering.

The group still has substantial funds retained from the IPO and a \$400m line of credit. The selling shareholders are trying to take advantage of demand for high-quality stock in a sector that is outperforming the market by more than 40 per cent. The offer price is expected to be announced around mid-February. Morgan Stanley Dean Witter is sole bookrunner and global co-ordinator. Alan Gane

LUXURY GOODS

LVMH sales drop 5 per cent

LVMH, the French luxury goods group, yesterday reported a 5 per cent fall in 1998 sales to €6.9bn, which it blamed on its exposure to troubled Asian markets. The group, which announced this week it had become the largest shareholder in Gucci, its Italian rival, reported a 34 per cent fall in turnover at DFS, the duty-free retailing chain. However, it said DFS sales had picked up late in the year, helped by the rise in the yen. Analysts noted that activity for the whole group had improved in December, possibly signalling that the worst of the Asian crisis might be over. LVMH shares rose 6 per cent after yesterday, before closing at €207, up 3.2 per cent. Samer Iskandar, Paris

BANKING

Argentaria net profit rises

Argentaria, the Spanish bank that has been the subject of takeover speculation since the €27.5bn (\$31.6bn) merger of Banco Santander and BCI earlier this month, yesterday reported a 16 per cent increase in 1998 net profit of Pta73.3bn (€441m, \$509m). Earnings from fee commissions were up by 44 per cent, an increase that was marginally down on the 12-month increase of fee earnings in the third quarter last year. Net interest income rose by just 2.9 per cent to Pta220.3bn against a 5.7 per cent year-on-year spurt at the end of the first half, and 3.8 per cent at the end of the third quarter. However, return on equity increased nearly 20 per cent over the 12 months, to 13 per cent. Tom Burns, Madrid

CAR MANUFACTURING

Ford cuts Fiesta production

Ford is cutting 70,000 Fiesta cars and vans from its production schedules in Germany and the UK, blaming depressed demand in several key European markets. Cologne will make nearly 30,000 fewer Fiesta cars than scheduled up to the end of March. John Griffiths

Deutsche Bank fights back over performance

By Clay Harris, Banking Correspondent

After suffering several years of sniping over its investment banking performance, Deutsche Bank is coming out fighting.

The agreed \$10.1bn takeover of Bankers Trust of the US will fill important gaps in the German bank's geographical and product range, but senior executives said this week in London that the operation had already made great strides.

Edson Mitchell, head of global markets, the fixed-income and foreign-exchange business, said: "I think we're going to end up the most profitable global markets firm in 1998."

He and colleagues said this was an early benefit of Deutsche's re-organisation last year, which combined corporate and investment banking into a single division represented at management board level by Josef Ackermann.

Deutsche, which bought Morgan Grenfell of the UK in 1989, had been criticised for its failure to make inroads in the US, in spite of an expensive hiring spree in the mid-1990s.

Its decision last year to put "Europe first" was seen as a retrenchment, and it then suffered the loss of several top executives and the high-technology investment banking team led by Silicon Valley superstar Frank Quattrone.

But Michael Philipp, global head of equities, said it was now clear "we're going forward, not going back". His business would report a big turnaround from the break-even result in 1997, helped by the equity derivatives business bought from National Westminster Bank. This will now be reunited with NatWest's former cash equities operation, bought by Bankers Trust at the same time.

In research, Deutsche would become number one in the UK and vault into the top three in Europe. In the US, thanks to Bankers Trust's Alex. Brown subsidiary, it enters the top 10.

"One of the real areas for opportunity we see is for small and medium-sized companies in Europe, where we already have a strong presence on the large cap side," Mr Philipp said.

On the fixed-income side, Mr Mitchell said: "I'd be very disappointed if we're not number one this year in overall euro league tables. We look at 1999 and the euro, and [see] many of our competitors wounded. Merrill is in full-scale retreat in fixed income. Goldman is in disarray. Lehman reeling and Salomon a shadow of itself."

Bankers Trust puts Deutsche in a "very strong position" in Europe's fledgling high-yield market, Mr Mitchell said. "People have been talking about it for years; finally it's coming to fruition. There's no reason for a [Donaldson, Lufkin and Jenrette], a Merrill Lynch or a Morgan Stanley to dominate the high-yield market in Europe."

Usinor poised to reveal revamp

By David Owen in Paris

Usinor, the French steel maker, is expected today to announce its biggest restructuring for more than a decade, in a move designed to offer a better service to its clients and take account of its increasingly wide geographic scope.

The group, chaired by Francis Mer, has embarked on a string of international acquisitions over the past two years, culminating in a deal, agreed last October, to buy a majority stake in Cockerill Sambre, the Belgian state-owned company, for FF285bn (€644m, \$766m).

The deal created Europe's largest maker of crude steel, accounting for about 14 per cent of the European market. Usinor will also be hoping that the reorganisation - expected to feature the break-up of Sollac, its dominant flat carbon steel division, and the centralisation of back-office activities - helps lift its share price.

Yesterday, the shares significantly outperformed the benchmark CAC 40 index, closing nearly 2 per cent higher at €10.22.

Trades unions yesterday claimed the restructuring amounted to the "Balkanisation" of Usinor, and suggested the move could lead to many white-collar job losses.

Usinor is in the process of selling a large part of its specialty steels division. In a move intended to enable the group to focus on its flat carbon steel and stainless activities.

First-half net attributable profit, announced last year, more than doubled to FF2.04bn (€310m, \$365m). The company said second-half results would be less favourable, but full-year performance should show a clear improvement from 1997.

Cockerill Sambre said Philippe Delaunoy, its managing director, would stand down at the end of March or in early April after refusing an offer of a new position within the Usinor group, AFP News reports from Brussels.

Philips cuts back profit forecast

By Jeremy Gray in Amsterdam

Philips, Europe's largest electronics group, yesterday cut its profit forecast for 1998 owing to F1.2bn (€307m, \$1.05bn) in charges to be taken for the fourth quarter.

The Dutch company, which is digesting losses from its aborted telephony joint venture with Lucent Technologies of the US, said it expected to report "marginally lower" net earnings from normal operations. In 1997, Philips posted a record net profit of F1.3.25bn, and had been planning to at least match that showing in 1998. The company said F1.500bn had been set aside partly for restructuring and adjustments to pension liabilities and for bad debts - mainly in Brazil.

Philips also said it expected to make a one-off gain of about F1.0.7bn from the sale of its 75 per cent stake in PolyGram, the entertainment group, to Canada's Seagram. The profit estimate excludes these proceeds.

About F1.1.5bn of the pre-tax charges relate to items announced last October, Philips said. Its shares yesterday closed down 2 per cent in Amsterdam at €68.40.

Schlumberger SCHLUMBERGER 1998 RESULTS. New York, January 21 - Schlumberger Limited reported operating revenue for 1998 of \$11.82 billion, an increase of 2% over 1997. Before the third quarter charge, net income and diluted earnings per share were \$1.39 billion and \$2.49, both 1% higher than last year. FOURTH QUARTER RESULTS: Fourth quarter net income of \$278 million and diluted earnings per share of \$0.50, were 30% lower than in the fourth quarter of 1997. Operating revenue of \$2.78 billion was 12% below the same period last year. Oilfield Services revenue declined 10% as the rig count fell 30%. Revenue was supported by the new organizational structure, which enhances our ability to deliver cost-effective, customized solutions using leading-edge technologies. Resource Management Services revenue fell 4%, compared with the fourth quarter of 1997, on market weakness as a consequence of industry consolidation and privatization. Test & Transactions revenue fell 3%, excluding the revenue from the Retail Petroleum Systems business sold on October 1, mainly as a result of the slowdown in the semiconductor market and despite high smart cards and terminals sales. Chairman and Chief Executive Officer Euan Baird commented: "The weakening in E&P spending provoked by the flattening of demand in 1998 will continue well into this year. We expect that falling non-OPEC supply due to the decreased expenditure, coupled with a recovery in the Asian oil demand, will produce higher oil prices and oilfield services activity in early 2000."

CONTRACTS & TENDERS INVITATION FOR BIDS Republic of Uzbekistan Government Computer System 2347-65 Subject of the Tender: The Communications Ministry intends to hire contractor to supply, install, operate and transfer the system for the exchange of data with different levels of security between all government ministries and institutions on the whole territory of Uzbekistan. The estimated cost of the system - 5.80 mln. Hardware and Software for integrated information system. Servers: Pentium Communications & networking equipment and cabling. Satellite dishes. Workstations: Database development software, office software and integration. Internet server. Printers: Database development software, office software and integration. Bids can be obtained for the whole system, partially for some items or single item. There may be a consortium of different companies founded for delivery of the whole subject of contract. There are no privileges for local companies. Bidding Documents: Starting from January 15, 1999 a complete set of bidding documents may be purchased by any interested bidders upon submission of written request by fax and payment of a non-refundable fee of USD 2,500 in the form of wire transfer (with note: For bidding documentation) in the name of our consultant - Marketing Education Inc. Beneficiary: Marketing Education Inc. Account #: 245,042,10,333,01 SWIFT: ANKBCH2L ANKER BANK, SWITZERLAND The bidding documents will be forwarded via DHL after the payment is received. Deadline for bids: The bids should be submitted in the sealed envelopes to the Director, Marketing Education Inc., Oshkent 39019 Tashkent 700020, Uzbekistan; phone +998 71 100 34 77 or +7 (371) 100 34 77; fax +998 712 890046 or +7 (3712) 89 00 46 at the latest by 18.00 PM on 01.03.1999.

bad loans

Pitell suspends debt payments

Cost cuts help Petron into black

falls om

COMPANIES & FINANCE: UK

MEDIA DEPARTURE OF DAVID MONTGOMERY COULD LEAD TO FORMAL BID FROM TRINITY

Institutions force Mirror chief to resign

By John Capper

David Montgomery resigned as chief executive of Mirror Group, the newspaper company, yesterday after succumbing to pressure from some of the UK's largest investment institutions, which were dissatisfied by the company's performance.

The departure of Mr Montgomery, who resigned with a likely pay-off totalling £1.4m (£3.3m) after a week of open divisions within the Mirror

boardroom, could open the way for the group to be merged or taken over by a rival company.

His resignation came after sustained pressure from Mirror's non-executive directors and three of the largest UK investors, and could herald other attempts to force out chief executives of underperforming public companies.

Hermes Investment Management, the fund manager owned by the British Tele-

com pension fund and one of the three institutions that took a leading role in forcing Mr Montgomery out, said it had built up stakes in seven other companies where it believed senior management or strategy should change.

"Mirror Group was among the worst performing media shares. We wanted to do something about that, and it was clear that the chief executive had to go," said Peter Butler, chief executive of its UK Focus fund.

Mr Montgomery's resignation was also prompted by Phillips & Drew Fund Management.

Trinity, the regional newspaper company, could now make a formal bid. The company indicated before that it believed Mr Montgomery was an obstacle because of his wish to retain some executive power in a merged company.

Mirror appointed John Allwood, its former finance director and head of Mid-

lands and Scottish titles, as chief executive and insisted it would stay independent if its board did not receive an offer that gave shareholder value.

Mirror's board last week turned down a 90p per share offer from Regional Independent Media, backed by Caradon, the private equity firm. Hearst Corporation and Compass Partners could also have been drawn into the bidding.

Sir Victor Blank, Mirror's

non-executive chairman, said it had "become clear there was a degree of shareholder discontent with the existing leadership" because of the under-performance of Mirror shares.

Mr Montgomery that said it was "an opportune time to make this decision" as the group now seems less likely to have an independent future. He said the move could lead to "further enhancement of shareholder value".

COMMENT

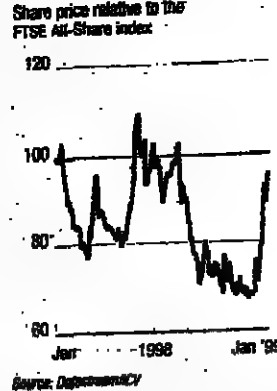
Mirror Group

Who will get to pick up the Mirror shards, following David Montgomery's resignation as chief executive? Now is the time for Trinity to show the colour of its money, given the removal of the so-called obstacle: Mr Montgomery. But on what terms? The starting point for the original Trinity merger discussions appeared to be a 55/45 division of spoils in the Mirror's favour. There is nothing like a potential rival cash offer from Regional Independent Media - rebuffed at 200p a share - to concentrate the mind.

By how much should Trinity sweeten its terms? A break-up valuation of the group - taking in the Mirror's national and regional newspapers - would produce about 230p a share. Mirror might argue for a price of 250p or more, using sales multiples of recent deals in the regional newspaper sector. But these now look too frothy, given the turn in the cycle.

Of course, Trinity's paper carries with it the promise of savings to come - variously estimated at £10m-£20m a year pre-tax. Then there are the less tangible benefits of better growth prospects in a better capitalised combine, with less exposure to the predatory world of national newspapers. But sticking with the original split would yield just 190p per Mirror share. Even throwing in the extra benefits would not match a cash bid pitched at the 230p level. But skewing the terms to 60/40 might get Trinity back in the frame.

Mirror Group Share price relative to the FTSE All-Share Index



Body Shop exits from manufacturing

By Allan Smith

Body Shop International plans to launch a loyalty programme in the UK later this year as part of a wide-ranging restructuring announced yesterday.

Patrick Gournay, chief executive, said the plan would be a way of creating closer contact with consumers. The company has carried out pilot schemes in Sweden and Switzerland.

The restructuring programme has three main elements, including a move out of manufacturing, which will

see the company outsourcing to third parties on a regional basis.

This will involve selling its Littlehampton manufacturing operations in the UK, which employ more than 550 people. The company, which is talking to potential partners, expects to implement a deal within six months.

The company will also "re-appraise" its franchising operations, working more closely with some franchisees and buying back others. At the end of last year, it bought Cosmo Trading, the private company which

operates its head franchise in Germany.

Body Shop itself will be reorganised into a smaller head office and four new regional businesses - America, Europe, the UK and Asia - each of which will have responsibility for expansion plans and for the day-to-day management of the business. This process should be completed by the end of the year.

Mr Gournay, who was brought in last summer as chief executive to succeed Anita Roddick, the company's founder, said the changes were intended to

allow the company to turn ideas into products more quickly and to focus more clearly on its retail business.

The restructuring will mean an unspecified number of redundancies. Ms Roddick, executive co-chairman, said she did not yet know the breakdown of the redundancies.

She described the move as "a 180-degree shift" away from the "manufacturing-obsessed" business the group had become, enabling it to return to its roots as a fast-moving entrepreneur.

When the restructuring is

completed it should bring cost-savings of £2m a year, but for the current financial year the re-organisation will mean £2m in exceptional costs beyond those announced at the interim results in October, taking the total to £3.5m. In the next financial year there should be savings of £4m.

The loyalty programme is one sign of the renewed focus on retailing.

Last week, Body Shop's Christmas trading statement disappointed the market. Yesterday the shares recovered 5 1/2p to close at 88 1/2p.

Eureko and Royal contend for GRE

By Andrew Dalglish

The battle to win control of Guardian Royal Exchange, the UK composite insurer, appears to have narrowed to a race between Eureko, an alliance of seven European insurers, and Royal & Sun Alliance, GRE's larger UK competitor.

The board of GRE will meet to decide as soon as the prospective bidders have finalised their offers. This may be this week, but the process could well run beyond GRE's self-imposed deadline of the end of January.

Royal & Sun, the UK's largest general insurer, has discussed offering about 300p per share, valuing the GRE at £3.4bn (£5.6bn). Royal & Sun was seen as front-runner in the bidding battle for GRE, given its scope to cut costs by shedding thousands of jobs from the enlarged operation.

However, Eureko has also emerged as a serious contender, after entering the auction late. It will make a cash offer and seems willing to match or top a Royal & Sun offer, which would be half in cash, half in shares. This could push the final price towards 400p per share.

Axa, the French insurer, has not withdrawn from the race, but was earlier unwilling to offer more than 360p.

Unlike Royal & Sun, Eureko could also promise minimal job cuts since it is keen to have a significant operation in the UK, alongside Friends Provident, the UK mutual life insurer that was a founder of the European alliance in 1992.

The other founding members of Eureko are Achmea, the Dutch insurer; Topdanmark, the Danish financial services group; and Länsförsäkringar Group of Sweden. The alliance has subsequently been joined by BCP/Atlantico of Portugal; Parion of Germany; and Swiss Mobilier.

The main obstacle to Eureko clinching the deal is that it does not want GRE's North American general insurance business, which accounts for about 18 per cent of the group's premium income. Last year GRE paid \$1.15bn for the US property and casualty business of ING, the Netherlands-based financial services group.

However, analysts are confident Eureko could find buyers for the US operations, which make GRE one of the top three property and casualty insurers in eight states in the Midwest and north-east. Royal & Sun was among the companies that GRE outbid for the ING operations.

Last year Eureko was outbid for Gan, the privatised French insurance group.

Anglo to delay timing of London listing

By Gillian O'Connor

Anglo American, the £4bn (\$6.5bn) South African mining group planning to move to London, yesterday said it did not expect to obtain its London stock market listing until late May, a couple of months later than originally planned. It is still hoping to be admitted to the FTSE 100 index by the end of June.

The company, which at present has its primary listing in Johannesburg, is reorganising several parts of its corporate structure before making a formal application for a London listing. The most important deal outstanding is the formal takeover of Minorco, its sister company, for which it is making a \$3.5bn bid.

The company said yesterday that the original timetable had always looked ambitious. When the change of domicile was announced on October 15, it had hoped it might obtain its listing in time to be admitted to the FTSE 100 after the committee's March meeting.

However, it was obvious even before Christmas this target was unrealistic. And since its next opportunity for joining was not until June, directors felt it was sensible to devote the additional time to preparing the listing particulars.

UK fund managers are likely to have some reservations about Anglo American. The biggest worries are the dominance of the Oppenheimer family and that, even after the corporate restructuring, Anglo will still have substantial cross-holdings with the De Beers diamond mining group. Mining companies and emerging markets have also fallen out of favour.

Some index tracking funds will, however, have to buy Anglo shares because they will be in the FTSE 100.

Predator seeks out downbeat LIG

Virginia Marsh and Tracy Corrigan consider the likely identity of the mystery bidder and possible regulatory implications

Nick Hodges, London International Group's chief executive, once said his greatest fear was that the company, which makes Durex condoms and Marigold rubber gloves, would be bid for before he had brought out its true potential.

With Monday's announcement of a preliminary, unsolicited merger approach, that might be about to happen. The potential bidder has caught the UK group at a low point.

A profits warning in December, prompted mainly by a slump in sales of lower margin medical gloves, hit LIG's shares. They fell 30 per cent in a day, reaching their lowest level since early 1998 and reversing the upward trend initiated by Mr Hodges after he became chief executive in 1993. He was drafted in after the group - then a conglomerate that stretched to cough syrups and hairbrushes - ran into serious problems, culminating in losses of £174m in 1993-94.

Analysts say the UK group, which Mr Hodges has focused on condoms and gloves, could appeal to companies ranging from Procter & Gamble, the US consumer goods giant, to Okamoto Industries, Japan's leading condom maker but a smaller company than LIG. Shares in LIG rose 9p to 172 1/2p yesterday, valuing it at \$60m.

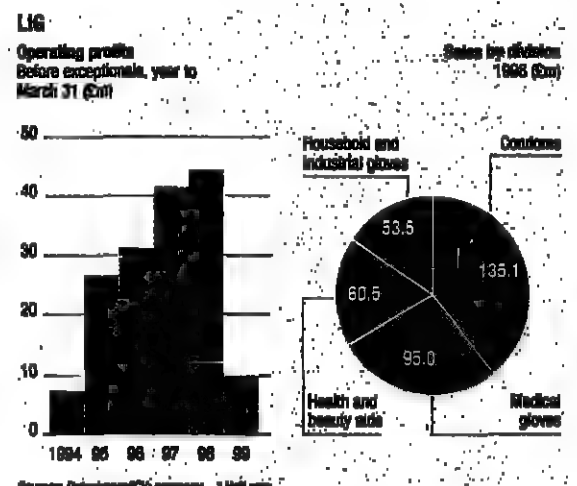
LIG's attractions lie in the strength of its brands, espe-

cially Durex, and its dominant positions both in condoms and in gloves, where it supplies the medical, industrial and household markets. Last year, medical gloves accounted for 28 per cent of group sales of £246m, household and industrial gloves for 18 per cent and condoms for 38 per cent.

LIG is number one in the world condom market, which is worth £700m a year, with a 21 per cent share. It is followed by Ansell, the rubber goods arm of Pacific Dunlop of Australia, which has 12 per cent, and Carter-Wallace of the US and Okamoto which both have 7 per cent. The market, which consists almost entirely of branded sales - rather than unbranded condoms distributed mainly in the developing world by aid agencies - is growing at 2 to 3 per cent a year. But although annual growth in mature markets such as the UK and the US is less than 3 per cent, sales are rising at more than 10 per cent a year in some emerging markets such as Asia and eastern Europe.

The protective glove market is more fragmented but is growing more quickly. LIG is number one in acute care surgical gloves in the US, the largest healthcare market in the world, with a 30 per cent share, but is fourth in the world in industrial gloves.

Analysts say one of the strongest contenders for LIG

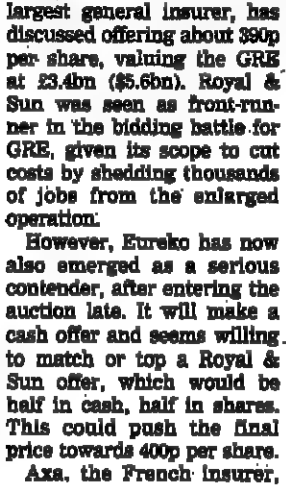


could be Safeskin, the leading maker of latex examination gloves in the US market. Its shares rose 4p to \$24 by mid-session yesterday on speculation that it was behind the approach. But some analysts said the west coast company indicated recently that it was not proposing any acquisitions.

There could also be interest from Kimberly Clark, the large US consumer products group, which has been building up its medical products business, for example, with its acquisition of Ballard Medical, a disposable respiratory products business.

However, Melissa Wilmoth, at Merrill Lynch in New York, noted that LIG's condoms business might be more attractive to a potential acquirer, since the company has been losing market share in surgical gloves.

According to Viren Mehta,



analyst at Mehta Partners in New York, LIG's condoms business has "a better brand and better margins. The surgical gloves business has proved to be easier for emerging market companies to penetrate". This could make Carter-Wallace, owner of the Trojan brand, the US condom market leader, a possible bidder, although many analysts rule this out on competition grounds. Together, Carter-Wallace and LIG control more than two-thirds of the US market.

Ansell, which produces both gloves and condoms, might also face regulatory problems for the same reasons in other markets, but observers say these are not insurmountable. Pacific Dunlop, its owner, has said it aims to expand the business globally and has been freeing financial fire-power by shedding non-core assets.

Company	Turnover (\$m)	Pre-tax profit (\$m)	EPS (\$)		Date of payment	Dividends	Total for year	Total last year
			Current	Final				
Acton Villa	6 mths to Nov 30	13.8 (11.9)	13.8 (10.22)	81.9 (10.3)	2.2	Feb 5	2.2	6.8
Cassidy Brothers	6 mths to Oct 31	4.1 (3.58)	0.287 (0.168)	3.84 (2.57)	0.75	Apr 8	0.75	3
FL	6 mths to Nov 30	31 (28.1)	2.85 (2.18)	11.8 (8.8)	1	Apr 8	2	3.3
London Scottish Bk	7 mths to Oct 31	22.8 (18.4)	2.86 (2.55)	6.11 (5.2)	2.42	Apr 8	2.2	8.83
Photo-Me Int'l	6 mths to Oct 31	114.1 (85.1)	15.2 (11.2)	14.98 (9.57)	2.2	Apr 1	2	6.5
Shastor 24p	6 mths to Oct 31	3.07 (0.125)	0.78 (1.54)	85.32 (19.4)	-	-	-	-
Systems Inting	6 mths to Nov 30	0.891 (0.518)	0.032 (0.298)	0.1 (2.4)	-	-	-	-

Company	Turnover (\$m)	Pre-tax profit (\$m)	EPS (\$)		Date of payment	Dividends	Total for year	Total last year
			Current	Final				
Fleming Beared	6 mths to Nov 30	440.1 (271.7)	0.072 (0.202)	0.98 (1.14)	1	Feb 26	0.95	2.85

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *Comparatives restated. †After exceptional charge. ‡After exceptional credit. †On increased capital. ‡In stock. †In foreign currency.

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Incorporation of Private Sector

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EMOS is the largest water and wastewater company in Chile, operating the water and wastewater concessions for the Metropolitan Region which includes the country's capital city, Santiago. The Company serves a customer base of some 1,100,000 and a total population of approximately five million inhabitants, representing a nationwide market share of more than 35%.

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Comunicato

The Agency has been commissioned by the Municipality of Rome to look for sponsors in connection with the financing of some of the interventions envisaged by the project for the rehabilitation and valorization of the Imperial Fora, rendering them more enjoyable for the general public. In particular, sponsors are sought for the various proposals for integrating the missing parts of monuments, improving the nocturnal illumination, organizing Trajan's Forum into a museum and preparing various exhibitions thereof, setting up an efficient information system for the occasion, and preparing some 500 special events and shows that are to make up the entertainment programme for the year 2000.

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Randfontein Estates Limited

(Formerly The Randfontein Estates Gold Mining Company, Witwatersrand, Limited)
(Incorporated in the Republic of South Africa)
(Registration number 01/02891/06)

COMPANY DIVIDEND

The following interim dividend has been declared in respect of the half year ended 31 December 1998.

Dividend number	124
Cents per share	20
Last date for registration	5 March 1999
Registers close (dates inclusive)	from 8 March to 12 March 1999
Currency conversion date (for payments from London)	18 March 1999
Date of payment	31 March 1999

This dividend is payable subject to the customary conditions which may be inspected at or obtained from the company's Johannesburg office or from the London Secretaries, JCI (London) Limited, 6 St James's Place, London SW1A 1NR.

Holders of share warrants to bearer issued by Randfontein are informed that payment of the above dividend will be made on or after 31 March 1999 upon surrender of coupon No. 127 to Barclays Bank plc, 8 Angel Court, Throgmorton Street, London EC2R 7HT. Coupons must be listed on forms obtainable from Barclays Bank plc and deposited on any weekday (Saturday excepted) at least seven clear days before payment is required.

By order of the Board
G W Poole, Company Secretary

Head Office and Registered Office:
26 Harrison Street
Johannesburg 2001
PO Box 61719, Marshalltown 2107

26 January 1999

مكتبات الامم المتحدة

INTERNATIONAL CAPITAL MARKETS

Bund market 'too small for derivatives'

By Samer Iskandar in Paris

The German government bond, or bund, market is too small to support the amount of derivatives based on it...

"If all the demand is concentrated on a contract with a limited amount of deliverable bonds, there is a risk of a squeeze on the bonds..."

The bund market, considered Europe's safest, suffered such a squeeze in September after Russia's default on its sovereign debt...

WORLD BOND PRICES

Table with columns: Country, Date, Coupon, Bid, Offer, Change, High, Low, Est. Vol., Open Int. Includes sections for Benchmark Government Bonds, Bond Futures and Options, US Corporate Bonds, and International Bonds.

10 YEAR BENCHMARK SPREADS

Table showing spreads for various countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, US.

EMERGING MARKET BONDS

Table listing emerging market bonds with columns: Country, Date, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

JGBs, gilts grab spotlight

BENCHMARK BONDS

By Arkady Ostrovsky in London and Richard Walters in New York

The Japanese and UK government bond markets grabbed the spotlight, with the US and the rest of Europe lacking direction...

The rebound in business confidence for the first time since 1997 added to the view that the UK economy was heading for a soft landing...

Two-year UK gilt yields rose 5 basis points while 30-year yields fell 3 points. The 10-year gilt March future rose 0.17 to 120.21...

Biggest euro bond from Belgium

NEW ISSUES

By Klaus Merchants

Belgium has launched the largest euro-denominated bond. It will be followed later this week by Sweden, one of the 'euro-outs'...

New international bond issues

Table listing new international bond issues with columns: Issuer, Amount, Coupon, Price, Maturity, Yield, Spread, Deal-number.

Using a syndicate helps capture a global investor base and achieves greater liquidity, which is the key attraction for global investors...

The bond was priced to yield 26 basis points over the 2005 bund and 17 basis points over the OAT. It was awarded by one basis point...

NEWS DIGEST

ASSET-BACKED SECURITIES

International issuance in 1998 up 10% to \$76bn

International issuance of asset-backed securities grew by 10 per cent to \$76bn last year in spite of the near closure of the market in the past four months...

CBOT still plans Eurex vote

Officials at the Chicago Board of Trade, the biggest futures exchange, said yesterday they were still planning to go ahead with today's vote over a strategic alliance with Eurex...

FUTURES

Members will be asked to vote on a specific pact - rather than the idea in principle - which would see the exchanges collaborate on the development of a new electronic trading system...

BOND FUTURES AND OPTIONS

Table for France: National Bund Bond Futures (DWF) 100,000. Columns: Open, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

INTERNATIONAL BONDS

Table for International Bonds: Columns: Bid, Offer, Change, High, Low, Est. Vol., Open Int.

US CORPORATE BONDS

Table for US Corporate Bonds: Columns: Bid, Offer, Change, High, Low, Est. Vol., Open Int.

UK BONDS

Table for UK Bonds: Columns: Bid, Offer, Change, High, Low, Est. Vol., Open Int.

UK Gilts Prices

Table for UK Gilts Prices: Columns: Bid, Offer, Change, High, Low, Est. Vol., Open Int.

US INTEREST RATES

Table for US Interest Rates: Treasury Bills and Bond Yields. Columns: Maturity, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

FT Fixed Interest Indices

Table for FT Fixed Interest Indices: Columns: Index, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

FT Floating Interest Indices

Table for FT Floating Interest Indices: Columns: Index, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

FT Eurozone Indices

Table for FT Eurozone Indices: Columns: Index, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

FT Asian Indices

Table for FT Asian Indices: Columns: Index, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

FT Latin America Indices

Table for FT Latin America Indices: Columns: Index, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

FT Emerging Markets Indices

Table for FT Emerging Markets Indices: Columns: Index, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

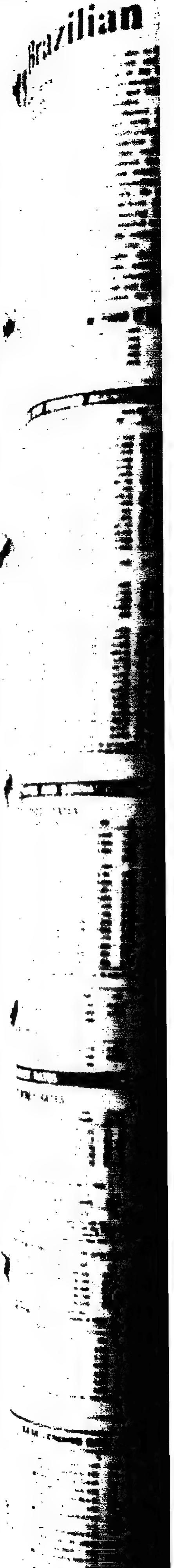
FT Global Indices

Table for FT Global Indices: Columns: Index, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

Other Fixed Interest

Table for Other Fixed Interest: Columns: Index, Bid, Offer, Change, High, Low, Est. Vol., Open Int.

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CURRENCIES & MONEY

Brazilian Real back in the limelight

MARKETS REPORT

By Florian Gimbel and Robert Chote

Brazil's fragile currency plunged to a new low on Tuesday, weighing heavily on the dollar. Following Monday's speculation over a possible devaluation of the Chinese renminbi, markets now seem to have shifted their focus back to Latin America.

The Real came under strong pressure during morning trading, following rumours over the imminent resignation of the finance minister and a possible debt moratorium. The spectre of capital controls, limiting the amount of dollars investors can take out of the country, also haunted the market. But officials instantly dismissed those rumours.

Moreover, Fitch IBCA, the ratings agency, cut its long-term foreign currency rating for Brazil on Tuesday

from B-plus to B, saying the devaluation and subsequent floating of the Real complicated an already demanding external and domestic financial position.

The impact of rumours and bad news on the Real was particularly strong. "The market was so thin today that anything could have moved the currency," said Gene Frieda of the economic consultancy 4Cast in New York.

But the central bank withstood the speculative onslaught, choosing not to intervene, which caused the Real to rebound. The dollar followed suit and edged back up against the yen from its

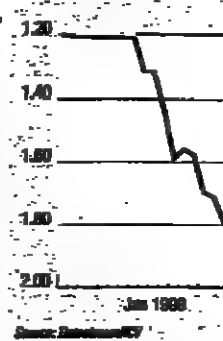
Tuesday low of 141.41 against Y114.3 to close at Y114.1 in London. It closed little changed against the euro. Many economists pointed at the danger of persistently high interest rates, which might jeopardise Brazil's ability to service its \$350bn domestic debt.

But with the currency still sliding, the government may have other issues to worry about. "In a country that has a history of hyperinflation, devaluation quickly leads to inflation, as price expectations are closely linked to the exchange rate," said Mr Frieda. The government will have to continue limiting the inflation pass-through by high interest rates. "Otherwise it will lose the benefits of devaluation," he added.

Meanwhile, Francisco Lopes told the Senate committee considering his appointment as central bank president that Brazil should and the year with foreign exchange reserves of around

Brazilian real

Applied the dollar (R\$ per US\$)



Source: Bloomberg

won last year, boosted by Standard & Poor's overnight upgrade of Korea's long-term foreign currency rating to BSB-minus.

Chinese officials reiterated their pledge not to devalue the renminbi. But some analysts are not convinced that the reassuring effect of such comments will last.

"We are going to see a devaluation within the next six to twelve months, irrespective of what the politicians are saying," according to James McKay, global markets strategist at Commonwealth Bank of Australia in London.

He added that China's comparative advantage vis-

vis its Asian neighbours was eroding because of its relatively high exchange rate.

The Confederation of British Industry is never shy in arguing the virtue of lower UK interest rates. Its call yesterday for another half-point off base rates next week did little to spook the markets.

In fact interest rate expectations edged fractionally higher, continuing the trend established on Monday when Eddie George, the governor of the Bank of England, warned that the monetary policy committee might put rates up again if consumer confidence bounced back and the world economy turned out less depressed than it looked.

Short-sterling contracts edged 1 or 2 basis points lower for 1999 and 4 or 5 basis points lower for 2000, continuing to point to base rates of around 5 per cent next spring.

OTHER CURRENCIES

Emerging market currencies edged higher on Tuesday, buoyed by cooling concerns about a Chinese currency devaluation, traders said. The South Korean

POUND SPOT FORWARD AGAINST THE POUND

Table with columns: Jan 26, Closing bid, Change on day, Bid/offer, Day's bid, One month, Three months, Six months, One year, Bank of England rate. Rows include various currencies like Euro, Swiss Franc, etc.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns: Jan 26, Closing bid, Change on day, Bid/offer, Day's bid, One month, Three months, Six months, One year, JP Morgan rate. Rows include various currencies like Euro, Swiss Franc, etc.

GROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Table showing exchange rates for various currencies including Belgium, Denmark, France, Germany, etc.

UK INTEREST RATES

LONDON MONEY RATES

Table showing London money rates for Sterling, Treasury bills, Bank bills, etc.

UK CHEERING BANKS

Table showing UK clearing bank lending rates for various terms.

BASE LENDING RATES

Table showing base lending rates for various banks and currencies.

EMS EUROPEAN CURRENCY UNIT RATES

Table showing EMS European currency unit rates for various currencies.

UK STERLING FUTURES

Table showing UK sterling futures prices for various terms.

UK STERLING OPTIONS

Table showing UK sterling options prices for various terms.

UK STERLING SPREADS

Table showing UK sterling spreads for various terms.

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International

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FUTURES CBOT still plans Eurex vote

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COMMODITIES & AGRICULTURE

Colombian earthquake pushes up coffee prices

MARKETS REPORT

By Paul Solman and Gillian O'Connor in London and Adam Thomson in Bogota

As Colombia struggled to clear up after Monday's earthquake, which shook the heart of its coffee-producing region and left hundreds of people dead, coffee prices rose on the London International Financial Futures and Options Exchange amid fears over supplies.

However, local officials denied the crop had been damaged and said production would be unaffected. "There is no damage to the plantations whatsoever," said Antonio Cardona of the National Coffee Federation's regional committee in Risaralda, one of the two worst affected provinces.

Colombia is the world's largest coffee producer after Brazil, with total exports last year of 11.2m 60 kg sacks.

According to Juan Camilo Restrepo, the country's finance minister, approximately 50 per cent of Colombia's production comes from the area affected by the earthquake.

World oil prices drifted again as the market awaited the weekly report from the American Petroleum Insti-

tute, which gives an indication of US stock levels. In late trading on London's International Petroleum Exchange, the benchmark March contract for Brent blend was \$10.63 a barrel against Monday's close of \$10.85.

Meanwhile, the IPE held a board meeting to draft its formal response to merger proposals from its US counterpart, the New York Mercantile Exchange. No details of the discussions were

released but both sides have indicated their desire to complete negotiations as soon as possible. Base metal prices ended the day mixed on the London Metal Exchange, with only zinc and tin showing any real strength.

Aluminium continued to provoke most of the interest, partly because of a conference about the metal's prospects taking place in Florida. Martin Squires of Rudolf Wolff argued that there was

no end in sight to aluminium's malaise in the short term, and he thought that prices were likely to move lower. Like most other analysts, Mr Squires sees a swelling market surplus and considers that any production cuts are unlikely to be sufficient to rebalance the aluminium market this year.

One effect of the surplus, said Mr Squires, is that consumers "have remained content to purchase a higher

proportion of their metal requirement from the spot market rather than establishing forward positions in a falling market. This shift in buying activity is exacerbating the decline in aluminium and metal prices as a whole."

Producers have not in general been selling forward, and Mr Squires argued that producer sales would damp down any rise in aluminium prices in the short to medium term.

US nut output hit by bad weather

By Paul Solman

Nut production in the US fell by a quarter last year, partly as a result of bad weather, according to the US Department of Agriculture.

The US is one of the world's leading nut growers. Total nut production was 93,000 tonnes, 25 per cent below the previous year's figure of 1.2m tonnes, but above the 1996 level of 825,000 tonnes. USDA said in its annual Non-citrus Fruits and Nuts Preliminary Summary.

Hazelnuts recorded the biggest fall in production, dropping 87 per cent to 15,500 tonnes, while pecans fell 54 per cent to 155m pounds.

Walnuts - of which the US is the world's biggest exporter - fell 18 per cent to 220,000 tonnes, while almonds dropped 31 per cent to 520m pounds.

Pistachios were the only tree nuts to increase production over the 1997 level, rising 4 per cent to 188m pounds.

Utilised production - the amount sold plus the quantities used at home or held in storage - dropped 22 per cent to \$1.6m, USDA said.

Once again, hazelnuts recorded the biggest fall, of 64 per cent, in spite of the improved prices during the year.

Almonds were off 23 per cent, while macadamias and pistachios were off 18 per cent and 8 per cent respectively.

In spite of drastically lower production, utilised production of pecans was down only 26 per cent. USDA said, attributing the figure to sharply higher prices.

Meanwhile, utilised production of non-citrus fruits fell 13 per cent to \$7.1bn, with grapes showing the biggest drop to 5.9m tonnes, 23 per cent below 1997's record level of 8.8m tonnes.

Cargill courts Capitol Hill

The largest private US company is hoping its controversial proposed acquisition of Continental's grain-trading operations will be approved by the Justice Department

By Mikiel Tait in Chicago

It will be the largest corporate player in international grain markets - but just how powerful?

That was the question facing Cargill executives as they made their way to Capitol Hill yesterday to defend their company's proposed acquisition of Continental's grain trading operations.

The deal, which would unite the world's biggest and second biggest grain exporters, has been controversial from the outset. Within days of its announcement, the National Farmers Union, a large US producers' group, said it could compound the squeeze on small farmers.

Dan Glickman, the US agriculture secretary, called for regulatory scrutiny. The Justice Department began a formal anti-trust inquiry last November, and the Commodity Futures Trading Commission, the US futures industry regulator, has also been making inquiries.

Yesterday's hearing before a congressional sub-committee, meanwhile, came at the direct request of anxious senators. "Consolidation of agricultural businesses is a growing trend that should be examined," said Senator Dick Lugar, its chairman.

Until now, critics of the

Cargill-Contl deal have tended to focus on the US operations, although to the extent that the merger has a bearing on grain futures prices or exports, implications could extend well beyond national boundaries.

The European Union is also reviewing the transaction. The deal adds Continental's US 63 grain-trading facilities to Cargill's 243. Mr Glickman said it also lifts Cargill's share of US corn exports to 42 per cent. Its share of wheat exports rises from 13 to 19 per cent; and its share of soyabean exports from 17 to 31 per cent.

However, the grain-trading business is anything but simple. Farmers deliver crops locally, so regional concentrations are also relevant. The same logic applies to export facilities.

Meanwhile, futures contracts carry delivery conditions, meaning concern about their share of volume traded, not just storage capacity, in the futures market delivery area, may prompt closer examination.

Cargill thinks differently. It says the grain trading industry has excess capacity at present and the two companies' combined operations would account for only 6 per cent of total commercial storage in the US.

overlap between the companies' existing facilities.

According to Cargill, the US's largest private company, there are 10 communities where both companies have duplicate operations, and four of these lie along the Illinois river.

This has added significance because the Illinois river will become a futures delivery point for corn and soybeans next year under the Chicago Board of Trade's revamped system. According to an Iowa State University study of the deal, just two companies (Archer Daniels Midland, another large US agribusiness, and Cargill) would account for 80 per cent of capacity along the Northern Illinois river.

"Cargill's acquisition might not appear problematic if ADM was not so large," suggest the authors. "However, the combination of these two large players and their share of volume traded, not just storage capacity, in the futures market delivery area, may prompt closer examination."

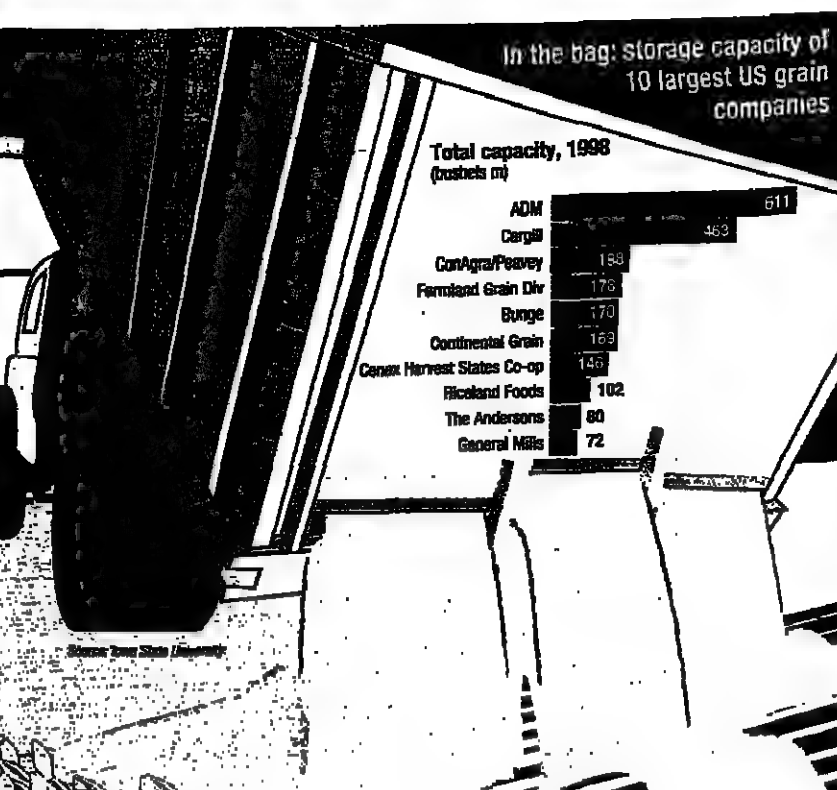
Cargill thinks differently. It says the grain trading industry has excess capacity at present and the two companies' combined operations would account for only 6 per cent of total commercial storage in the US.

Even in Illinois, it claims there are plenty of alternative buyers and grain-handlers: "ADM is significant, but there are a lot of other competitors," said Dan Dye, a Cargill vice-president.

Asked how the network might be rationalised if the deal proceeds, Frank Sims, president of North American grain trading operations, says the company is still doing due diligence. But he does concede that Cargill might shutter a few overlapping Contl facilities for part of the year, and "maybe one or two" completely. However, he also adds that the merged group would be likely to retain "at least one facility, if not two" in most existing locations.

He also stresses that the rationale for the deal comes only partly from economies of scale. With widespread processing and milling facilities, Mr Sims points out that Cargill has an increased internal supply requirement.

Moreover, explosive growth in genetically modified crops in the US means farmers may demand more segregated storage facilities. These, industry dynamics, though, could cut both ways. One reason the deal has attracted such attention is that it comes when the US agricultural sector is consol-



dating, and its impact on farmers and prices is already a matter of debate.

In addition, biotechnology developments seem to be reinforcing the power of the large agribusiness companies - meaning they may ultimately supply seeds, contract growers, and then handle the finished crops.

At yesterday's hearing, one economist - Robert Taylor, professor at Auburn University - told senators there

was evidence that the economic power of big agribusiness giants had increased "dramatically" in the 1990s. He felt their market power was getting out of balance and favoured a few "closely knit global corporations".

But others thought the consolidation was being driven by low commodity prices. "While a painful transition for farms and firms that exit, consolidation is generally favourable for US

agriculture," said Mark Draheusott, director of the Center for the Study of Rural America.

So how would Mr Sims feel if the Justice Department attached conditions to its approval - a scenario some observers think likely?

"It's a little difficult to hypothesize. If there's a need to sit down with them, we will do that, but we're still fairly optimistic [the deal will be approved]."

COMMODITIES PRICES

BASE METALS

Table with columns for metal type (Copper, Aluminum, Zinc, Lead, Tin, Nickel, Silver, Platinum, Palladium), price change, high, low, and open prices.

Precious Metals continued

Table with columns for gold, silver, platinum, and palladium prices, including bid, ask, and open values.

GRAINS AND OIL SEEDS

Table with columns for wheat, corn, soybeans, and other grains, showing price changes and current prices.

SOFTS

Table with columns for coffee, cocoa, and other soft commodities, listing price changes and current prices.

MEAT AND LIVESTOCK

Table with columns for live cattle, lean hogs, and pork bellies, showing price changes and current prices.

ENERGY

Table with columns for oil, natural gas, and other energy commodities, including price changes and current prices.

BASE OIL (PER BARREL)

Table with columns for various oil grades (WTI, Brent, etc.), showing price changes and current prices.

PULP AND PAPER

Table with columns for different types of pulp and paper, listing price changes and current prices.

INDICES

Table with columns for various market indices (DAX, Nikkei, etc.), showing price changes and current values.

INDEXES

Table with columns for different index types (FTSE, S&P 500, etc.), listing price changes and current values.

JOTTER PAD

A crossword puzzle grid with clues provided for both across and down words.

CROSSWORD

No. 9,898 Set by DARCY

A crossword puzzle grid with clues provided for both across and down words.

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Table with columns for gold, silver, platinum, and palladium prices, including bid, ask, and open values.

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A crossword puzzle grid with clues provided for both across and down words.

البيان

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Table listing various offshore funds under the Bermuda (FSA Recognised) category, including fund names, managers, and performance metrics.

BERMUDA (REGULATED)**

Table listing various offshore funds under the Bermuda (Regulated) category.

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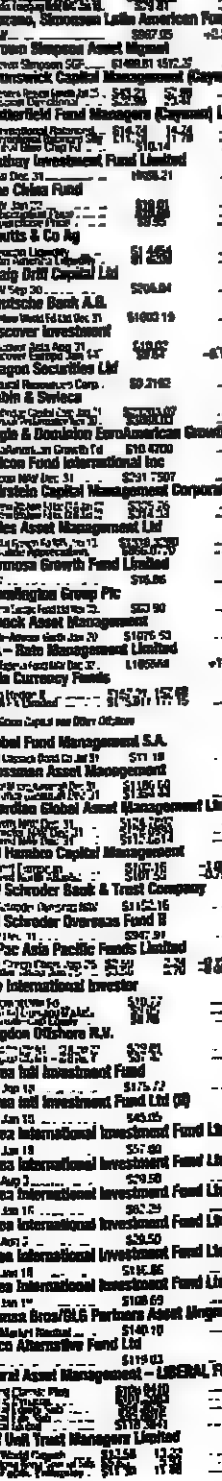
Table listing various offshore funds under the Guernsey (Regulated) category.

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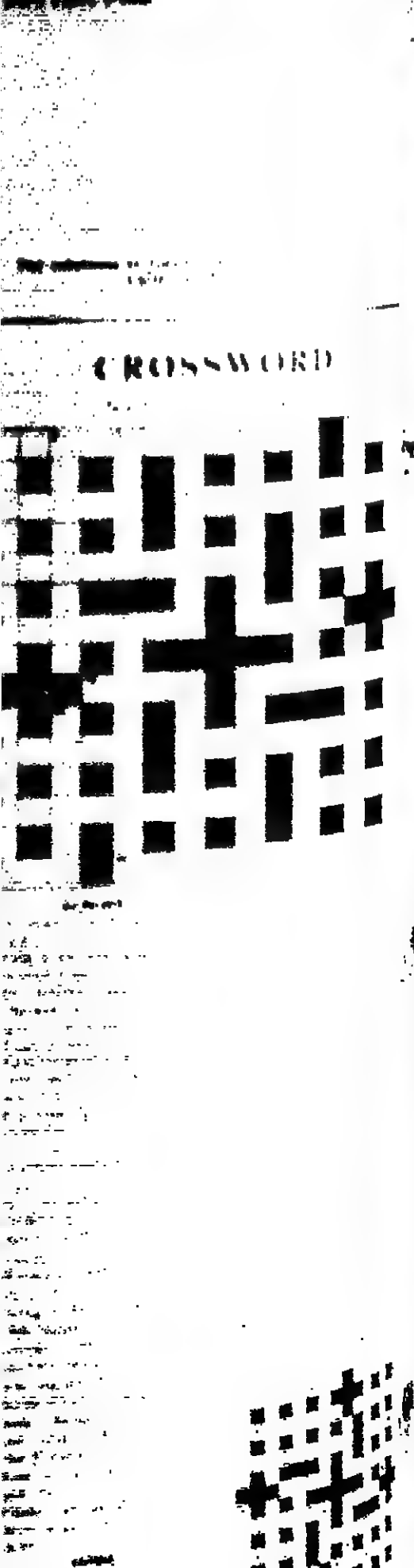
CROSSWORD



ices US nut output hit by bad weather



CROSSWORD



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Table of fund data including columns for fund name, price, and other metrics. Includes sub-sections like 'Other Offshore Funds' and 'Offshore Insurances and Other Funds'.

Table of fund data, likely representing a specific category of funds such as 'Access Investment Management'.

Advertisement for 'MORE PEOPLE LIVING LONGER INTO RETIREMENT. FEWER LEFT TO SUPPORT THEM. AN INSTITUTIONAL INVESTOR CAN GO GREY JUST THINKING ABOUT IT.' Includes a small graphic of a person's head.

Table of fund data, likely representing another category of funds such as 'Global Investment Management'.

Table of fund data, likely representing another category of funds such as 'Global Emerging Markets'.

Table of fund data, likely representing another category of funds such as 'Global Growth'.

MANAGED FUNDS NOTES: This page is a general information sheet regarding the funds listed, including details on fees, risks, and performance metrics.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table with columns for company names and share prices in the Alcoholic Beverages sector.

BANKS, RETAIL

Table with columns for company names and share prices in the Banks and Retail sector.

BREWERIES, PUBS & REST

Table with columns for company names and share prices in the Breweries, Pubs & Rest sector.

BUILDINGS MATS & MERCHANTS

Table with columns for company names and share prices in the Buildings Mats & Merchants sector.

CHEMICALS

Table with columns for company names and share prices in the Chemicals sector.

CONSTRUCTION

Table with columns for company names and share prices in the Construction sector.

CONSTRUCTION - Continued

Continuation of Construction sector table.

DISTRIBUTORS

Table with columns for company names and share prices in the Distributors sector.

DIVERSIFIED INDUSTRIALS

Table with columns for company names and share prices in the Diversified Industrials sector.

ELECTRICITY

Table with columns for company names and share prices in the Electricity sector.

ELECTRONIC & ELECTRICAL EQUIP

Table with columns for company names and share prices in the Electronic & Electrical Equip sector.

ENGINEERING

Table with columns for company names and share prices in the Engineering sector.

ENGINEERING - Continued

Continuation of Engineering sector table.

ENGINEERING - Continued

Continuation of Engineering sector table.

FOOD PRODUCERS - Continued

Continuation of Food Producers sector table.

GAS DISTRIBUTION

Table with columns for company names and share prices in the Gas Distribution sector.

HEALTH CARE

Table with columns for company names and share prices in the Health Care sector.

HOUSEHOLD GOODS & TEXT

Table with columns for company names and share prices in the Household Goods & Text sector.

INSURANCE

Table with columns for company names and share prices in the Insurance sector.

INSURANCE - Continued

Continuation of Insurance sector table.

INVESTMENT TRUSTS

Table with columns for company names and share prices in the Investment Trusts sector.

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INSURANCE - Continued

Continuation of Insurance sector table.

INVESTMENT TRUSTS

Table with columns for company names and share prices in the Investment Trusts sector.

INVESTMENT TRUSTS - Continued

Continuation of Investment Trusts sector table.

INVESTMENT TRUSTS - Continued

Continuation of Investment Trusts sector table.

INV TRUSTS SPLIT CAPITAL

Table with columns for company names and share prices in the Inv Trusts Split Capital sector.

Large table at the bottom of the page, likely containing market indices or additional share prices.

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السوق المالية

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

Table listing various investment trusts with columns for name, price, and change.

INVESTMENT COMPANIES

Table listing investment companies with columns for name, price, and change.

LEISURE & HOTELS

Table listing leisure and hotel companies with columns for name, price, and change.

LIFE ASSURANCE

Table listing life assurance companies with columns for name, price, and change.

MEDIA

Table listing media companies with columns for name, price, and change.

MEDIA - Continued

Continuation of media companies table.

OIL EXPLORATION & PRODUCTION

Table listing oil exploration and production companies.

OIL, INTEGRATED

Table listing integrated oil companies.

OTHER FINANCIAL

Table listing other financial companies.

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies.

PHARMACEUTICALS

Table listing pharmaceutical companies.

PROPERTY

Table listing property companies.

PROPERTY - Continued

Continuation of property companies table.

RETAILERS, FOOD

Table listing food retailers.

RETAILERS, GENERAL

Table listing general retailers.

TELECOMMUNICATIONS

Table listing telecommunications companies.

TOBACCO

Table listing tobacco companies.

TRANSPORT

Table listing transport companies.

WATER

Table listing water companies.

SUPPORT SERVICES

Table listing support services companies.

AMERICANS

Table listing American companies.

CANADIANS

Table listing Canadian companies.

SOUTH AFRICANS

Table listing South African companies.

TRADED INDEX SECURITIES

Table listing traded index securities.

AIM

Table listing Alternative Investment Market (AIM) companies.

TRANSPORT - Continued

Continuation of transport companies table.

WATER

Table listing water companies.

AMERICANS

Table listing American companies.

CANADIANS

Table listing Canadian companies.

SOUTH AFRICANS

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AIM - Continued

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Prices and trading volumes for the London Share Service are followed by bid, ask and FTSE 100. Prices are shown in pence and pence fractions. Company information is based on data used for the FTSE 100. Prices are shown in pence and pence fractions. Company information is based on data used for the FTSE 100.

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LONDON STOCK EXCHANGE

Merger fervour fails to support erratic Footsie

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The stock market pendulum swung substantially yesterday as investors tried to assess the market's likely short-term direction.

But the FTSE 100 index finished delicately poised, and fractionally in the bulls' camp, thanks mainly to Wall Street's mostly positive opening.

On the plus side for London was the continuing liquidity story, with institutions still full of cash.

Another positive factor was the ever-flowing stream of takeover stories, both actual and rumoured.

On the other side of the coin, the interest rate debate, viewed by many observers as the main driving force behind market sentiment over recent years, remained in the balance.

UK interest rates have fallen by 150 basis points over the past four months and there were strong expectations that a weakening domestic economy would prompt another reduction.

Those expectations were denied last week by a stron-

ger-than-expected fourth-quarter gross domestic product figure, which led some to cast doubts on the chances of another rate reduction.

Yesterday's Confederation of British Industry manufacturing survey indicated a slight easing of the downside pressure on UK manufacturing, but the CBI still called for a further 50 basis cut in UK rates.

The other negative factor was the fear of another dose of currency and stock market weakness in Latin America and elsewhere.

At the close, the FTSE 100 was 4.8 ahead at 5,856.7, a

move described as encouraging by some dealers, still concerned about the heavy sell-off that damaged sentiment at the end of last week.

That relatively sedate close masked a big swing in mood earlier in the day, when an initial surge of nearly 30 points in the FTSE 100 was gradually erased and replaced by a 50-point slide over lunchtime.

The early rally came as more bid stories swept across the market with most focused on the engineering sector and especially on LucasVarity, whose shares

rose higher in the wake of

the move by TRW of the US to counter the offer from Federal-Mogul.

Second- and third-line stocks were never really threatened by the bonus of uncertainty affecting the leaders.

The FTSE 100 closed a net 21.6 higher at 4,856.7, having hit a session high of 4,884.4. The FTSE SmallCap, meanwhile, settled 3.6 ahead at 2,956.0, having got to within 3.5 of the 3,000 level.

Turnover in the equity market once more topped the 1bn shares mark, with non-FTSE 100 issues accounting for just over half

the total. The cable/telecom sector continued to attract strong attention from the institutions in the wake of Microsoft's big investment in NTL.

And media stocks were heavily supported, led by Reed and Pearson, the group which owns the Financial Times.

The recently troubled general retail sector moves back into focus this morning with trading updates expected from Oasis, the fashion retailer group, and W.H. Smith, whose shares have risen strongly on the back of its internet involvement.

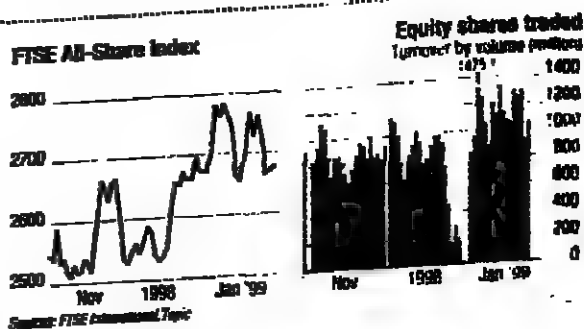


Table with 2 columns: Indices and ratios. Rows include FTSE 100, FTSE 250, FTSE SmallCap, FTSE All-Share, and FTSE All-Share yield. It also lists best performing sectors like Telecoms and Worst performing sectors like Oil & Gas.

Reed Int shoots higher

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

Reed International led the media sector higher as a broker recommendation combined with speculation that the management void might soon be filled.

The shares shot up 29% to 830p, with Henderson Croswatle pointing out that the company was the UK's most undervalued internet play.

Analyst Louise Barton said: "Reed has been beating away with a huge number of internet developments which the market has failed to appreciate."

She said the publisher had developed 16 value-added internet sites to complement its array of magazines.

Lorna Tilman, at WestLB Panmure, agreed that Reed was seriously undervalued, but said: "This is a market which is chasing earnings growth."

She pointed out that growth was restrained by the lack of leadership since the departures of Nigel Stapleton and Herman Bruggink, co-chairman.

However, there was strong speculation later in the day that Reed has appointed a couple of senior executives from Simon & Schuster, the

US group which sold its educational and specialist publishing arm to Pearson last year.

Pearson, meanwhile, surprised many media analysts as the group, which owns the Financial Times, jumped 64 to a new closing high of £13.91.

Comments on Monday that Pearson is to put several of its reference and business and professional publishing operations up for sale, as well as news of a proposed joint venture with two German companies to publish a German-language edition of the Financial Times, helped the stock.

Directors at Abbey National were apparently cracking open the champagne last night. A rise in the share price of 16 to £33.21

seemed on the surface to be a thin excuse for a party but it took the company's market capitalisation above that of Halifax.

The rise was seen as a reflection of a first-class management outgunning the UK's largest mortgage lender and one of its biggest banks, Halifax, which has suffered leadership problems, shed 1% to 75p.

Consumer products group Reckitt & Colman joined the growing list of leading bid targets. The shares rose 63 or nearly 9 per cent to 780p, making them one of the best Footsie performers.

Last week, ABN Amro was said to have picked up chunks of stock believed to amount to about 14m of the company shares, paying 740p a share.

The shares fell to a 12 month low following the purchase of the stock. However, talk that the holding may be used by a predator to launch a bid for the group did the rounds in the market yesterday, prompting a sharp recovery in the shares.

Vodafone, which is taking over US group AirTouch, was a busy trade as Dreed-

However, dealers said many media blue chips were being driven by a non-specific internet frenzy and even smaller publishers were being sucked in.

Eurocomer jumped 300 to £15.87 after announcing it was buying an 80 per cent interest in Internet Securities, provider of emerging markets, financial, economic and company information.

However analysts expect the acquisition to dilute earnings by 18 per cent.

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Large advertisement for 'European Community Newspaper' with a large headline and a 'Subscribe for a year and receive 4 weeks extra free' offer. Includes contact information for FTSE International.

FTSE Actuaries Share Indices

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FTSE International

FTSE International logo and text: FTSE INTERNATIONAL

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Handwritten Arabic text: سكران من الامارات

WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

EUROPE (EMU) Prices in €

As at 12.00 pm (Jan 26)

Table listing stock prices for various European countries including Germany, France, Italy, Spain, and others.

GERMANY (Jan 26) € = 1.93693 DM

Table of German stock prices including VW, SAP, and others.

FRANCE (Jan 26) € = 6.5597 Fm

Table of French stock prices including Air France, Bouygues, and others.

ITALY (Jan 26) € = 1936.2700 Lit

Table of Italian stock prices including Eni, Fiat, and others.

SPAIN (Jan 26) € = 163.2800 Ptas

Table of Spanish stock prices including Telefónica, Repsol, and others.

NETHERLANDS (Jan 26) € = 2.2027 Fl.

Table of Dutch stock prices including Shell, Unilever, and others.

FINLAND (Jan 26) € = 5.9457 Mm

Table of Finnish stock prices including Nokia, Wärtsilä, and others.

IRELAND (Jan 26) € = 0.7870 Pm

Table of Irish stock prices including Anglo Irish Bank, etc.

PORTUGAL (Jan 26) € = 200.4820 Esc.

Table of Portuguese stock prices including BCP, etc.

EUROPE (NON-EMU)

As at 12.00 pm (Jan 26)

Table listing stock prices for non-EMU European countries.

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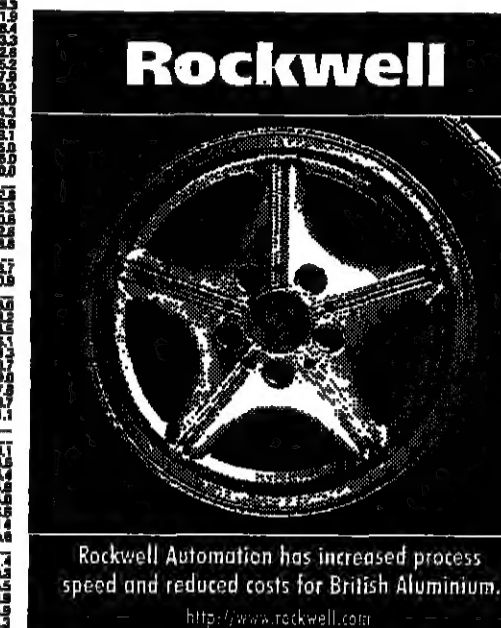
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Table of Portuguese stock prices.



Rockwell Automation has increased process speed and reduced costs for British Aluminium.

http://www.rockwell.com

FT/S&P ACTUARIES WORLD INDICES

The FTSE Actuarial World Indices are owned by FTSE International Limited, London, and Standard & Poor's, New York.

Table of FTSE Actuarial World Indices showing various regional and global indices.

Emerging markets:

IFC investable indices

Table of IFC investable indices for emerging markets.

AFRICA

Table of stock prices for African countries.

AMERICAS

Table of stock prices for American countries.

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APPLICABLE

GLOBAL EQUITY MARKETS

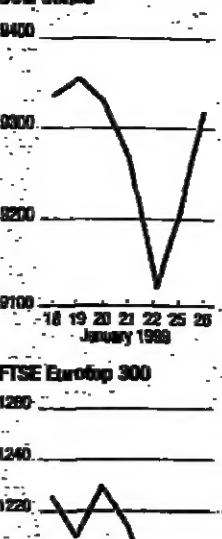
US INDICES

Table with columns for Index, Jan 26, Jan 27, 1999, and % Change. Includes S&P 500, Dow Jones, and NASDAQ.

US DATA

Table with columns for Market Activity, Volume, and % Change. Includes NYSE, AMEX, and NASDAQ.

Dow Jones



JAPAN

Table with columns for Index, Jan 26, Jan 27, 1999, and % Change. Includes Nikkei 225 and TOPIX.

FRANCE

Table with columns for Index, Jan 26, Jan 27, 1999, and % Change. Includes CAC 40.

COMPUTING
Shares lifted by stock split

Case sees sales downturn

Taxco tumbles to \$213m

McDonald's stays upbeat

MARKETS

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INDEX FUTURES

Table with columns for Index, Jan 26, Jan 27, 1999, and % Change. Includes S&P 500, Dow Jones, and NASDAQ.

WORLD MARKETS AT A GLANCE

Large table showing global market performance across various countries and indices.

THE NASDAQ-AMEX MARKET GROUP

Extensive table listing individual stock prices, volume, and market activity for the NASDAQ-AMEX group.

ted by Bay buy

its McDonald's

EASDAQ

Table with columns for Index, Jan 26, Jan 27, 1999, and % Change. Includes EASDAQ index.

STOCK MARKETS

Brazil worries curb enthusiasm as Real slips

WORLD OVERVIEW

Continuing concern about the financial problems of Brazil restrained investors' enthusiasm for global equities yesterday, writes Philip Coggan.

Traders had some good news at the start of the day, as the Chinese premier ruled out a devaluation of the renminbi. But the foreign exchange markets still managed to upset sentiment later in the day as the Brazilian

Real slipped to R\$1.97 to the dollar and credit agency Fitch IBCA cut the ratings on Brazilian debt.

While Asia pushed ahead on the China report, the European markets were flat, although the Dax in Frankfurt ticked above the 5,000 level.

Although market reaction to the Brazilian devaluation has been far more subdued than the sell-off that followed the Russian or Asian crises, investors remain con-

cerned that Brazil's problems could spread to the rest of Latin America. That in turn could create problems for the US, for which the region is an important export market.

Wall Street managed to hold off the bad news from Brazil, with the help of some in-line results from Boeing, Coca-Cola and McDonalds.

The US results season has started well. According to IBES International, the information group, 41 per

cent of S&P 500 companies have so far reported fourth-quarter 1998 earnings. Those earnings have come in 3.9 per cent above analysts' forecasts, thanks to companies such as Microsoft, Intel and National Semiconductor.

However, IBES predicts: "The positive surprise percentages will most likely decrease over the next few weeks as more of the smaller commodity-related firms report their earnings, particularly in the oil, steel, chem-

ical and natural gas industries.

"We expect that the S&P 500 index will register its second straight quarterly earnings decline in Q4 1999 due to a continued pattern of negative earnings growth from the commodity-related industries."

Earnings are also likely to come under pressure in Europe. "We believe there is substantial downside risk to corporate profit forecasts," says Gary Dugan, European

strategist at J.P. Morgan.

"Today, the consensus bottom-up expectation for earnings growth in 1999 is 11 per cent. From a top-down perspective, however, we find it difficult to argue for much more than 0-3 per cent."

Given this background, Mr Dugan adds: "On our models, we have come out with a target for the FT/SE100 Europe 300 ex-UK index of 1.375, which equates to a modest return of 7 per cent over the next 12 months."

MARKET FOCUS Dublin learns to talk in euros

Ireland has again confirmed its reputation as the European Union's most enthusiastic member, with its listed companies talking to the euro with a readiness few on the continent can match.

While the Germans, and to a lesser extent the French, stick to the so-called legacy currencies, the early signs are that Irish corporates have already jettisoned the punt and are now wholeheartedly embracing the euro in the presentation of their annual numbers.

"What we hear is that most of the large companies will report in euros," said Tom Healy, chief executive of the Irish stock exchange.

A survey of Dublin-listed companies by Davy stockbrokers in November found 14 per cent planned to present their 1998 final accounts in euros for their 1999 interims.

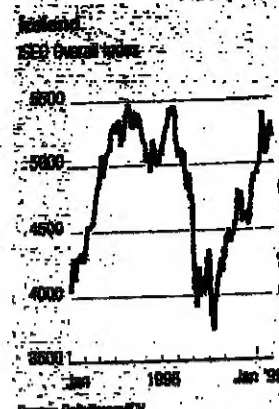
The issue is important for the smaller euro-zone markets such as Dublin. Domestic fund managers are set to rebalance their portfolios as they no longer have to match their Irish liabilities with exclusively Irish stocks, and may now buy in the wider market without exchange considerations.

"Anything a company can do to make it easier for a fund manager in Frankfurt to buy its stock, it should do it. It's like reporting early," said Chris O'Connell, director at ISI Bank of Ireland's corporate finance arm.

ORR, the building materials group, said it adopted the euro for all its management accounts from January, but most companies are expected to retain the punt for internal purposes.

Joe Gill, head of equity trading at Blackbrokers in Dublin, said the real push has come from investors. "All our commissions are quoted in euros, all our budgets. Our clients don't want to hear us talk in Irish," says Mr Gill.

From January 4, when the



11 stock markets of the new euro-zone opened for trading, prices have been quoted in euros. The only figure the stock exchange stipulates must be in euros is the dividend, largely for investor convenience given the price is already in euros.

By reporting profits and earnings per share in euros, companies make it easier for investors to calculate ratings. Foreign borrowings may also make more sense.

For a US investor, it allows comparisons with other euro-zone markets. On the downside, the move makes it more difficult to make historic comparisons.

The decision of Irish companies is dictated by the need to lure European-based fund managers to buy Irish stock. As part of Europe's fastest-growing economy, Irish companies should be able to entice buyers from a much larger investor base.

This year the ISEQ overall index has climbed to within 4 per cent of its April 1998 high.

Oliver O'Shea, banks analyst at Goodbody stockbrokers, said there had already been a re-rating of some stocks. Irish banks are now on a par with the faster-growing peripheral euro-zone economies such as Portugal and Spain rather than their traditional UK peers.

John Murray Brown

Earnings fear casts shadow over Wall St

AMERICAS

The technology sector again led Wall Street higher despite continuing signs of broader weakness in the US stock market, writes Richard Waters in New York.

Fallers outnumbered risers in the morning session, reflecting a continuation of the unease about corporate earnings prospects that has settled over the market in recent days.

But technology stocks performed well again, lifting the Nasdaq composite 1.5 per cent.

By early afternoon, the Nasdaq was trading at 2,406.71, a rise of 36.4. The Dow Jones Industrial Average was up 15.7 or 0.2 per cent at 9,219.02 while the Standard & Poor's 500 index stood at 1,237.93, a rise of 3.51.

International Business Machines and Hewlett-Packard were among the biggest gainers in the Dow. The former rose 3% to \$184.40, an expected news of a share split, while the latter gained 2 1/2% to reach \$72 1/2.

Microsoft, which had announced a share split earlier in the week, climbed another 7 1/2% to 44 per cent to \$189 1/2, another record.

Intel and Dell Computer each gained nearly 3 per cent, with Intel up 3 1/2% to \$134 1/2 and Dell up 3 1/2% to \$57 1/2.

There was a mixed reception for the latest batch of earnings reports from some of the biggest US companies. Coca-Cola fell, despite meeting earnings expectations, as the company's profits continued to slide. The shares dropped 2 1/2% or 3.7 per cent to \$50 1/2.

The currency declined further yesterday, falling as low as R\$1.97 to the dollar. It had recovered by lunchtime to R\$1.83.

Sentiment was also hit by credit agency Fitch IBCA's decision to cut the ratings on Brazilian debt.

Indices across Latin America rose with São Paulo.

By late afternoon, the IBC index in CARACAS was 62.47 or 2.1 per cent higher at 4,002.94.

São Paulo looks cheap for bargain hunters

SÃO PAULO surged as investors took advantage of the depreciation in the Real to buy shares in companies that looked cheap in dollar terms.

The Bovespa index had reached 7,782 by mid-afternoon, a rise of 62 or 0.8 per cent.

The bourse was closed for a holiday on Monday, when the Real edged lower against the dollar, slipping from R\$1.89 to R\$1.78.

Meanwhile McDonald's, which reported a 10 per cent rise in net income, gained 5 1/2% or 4 per cent to \$78 1/2.

Other companies in the Dow to report earnings included Boeing, which fell 3% to \$35 1/2, and Merck, which recovered some of its losses of the previous day, gaining 1 1/2% to reach \$189 1/2.

Some of the biggest Internet stocks continued to recover from the sharp falls they suffered last week. Amazon.com, the Internet retailer, rose 4 1/2% to \$81.02. The company was due to report earnings later in the day.

Yahoo! rebounded 3 1/2% or 8.6 per cent to \$338 1/2, although it was still more than \$100 below the record set earlier in the year.

TORONTO pushed higher in early trading helped by a round of better-than-expected earnings statements that lifted the 300 composite index 13.72 to 6,632.20 at noon.

Northern Telecom was actively traded after turning in final-quarter results ahead of market forecasts. The shares added \$2.45 to C\$68.55 while BCE, which owns 41 per cent of Nortel, improved 56 cents to C\$68.40.

Canadian Pacific reported lower profits but the result was seen as more resilient than anticipated. The shares added 90 cents to C\$30.85.

The transport sector was also enlivened by Laidlaw, which added 50 cents to C\$13.40.

In banks, Toronto-Dominion improved 70 cents to C\$76.15 after it confirmed plans to spin off its discount brokerage operations. Royal Bank of Canada gained 85 cents to C\$76.15.

EUROPE

European equities ended little changed after another low-volume session. PARIS mirrored the broad trend, closing at 4,071.23, up 20.43 and 21 points short of the day's best level.

Pinsuit-Printemps, a dull market in recent weeks on talk of dwindling sales growth, shot ahead after the Dow to report earnings showing solid gains in like-for-like turnover. The shares gained 63 at €166.

Michelin also showed an unexpected turn of speed, advancing €3.05 to €22.85 after a press report suggested the tyre leader was to forge an important alliance with a Japanese tyre giant.

Saint-Gobain rose €3.90 or 8 per cent to €120.50 ahead of tomorrow's results statement. It was said to have

gained from switching out of Pilkington because of the UK glassmaker's Latin America exposure.

Cap Gemini added €1.40 to €158.40 after an upgrade to "buy" at Rabobank. An upbeat trading statement from STMicroelectronics gave little support and it dipped 10 cents to €21.40.

LVMH, buoyed lately by acquisition news, notably a large stake in Italian fashion house Gucci, gained €6.50 to €207 following a better-than-expected sales statement.

Banks and oils stood out as weak features. BNP lost 50 cents to €77.50 and Société Générale came off €2.50 to €147. In oils, Elf Aquitaine shed 64 at €96.

Among lesser caps, Pathé continued to crumble after Monday's news that Canal Plus and Vivendi had become substantial shareholders, effectively removing the potential for a bid battle over the TV and cinema group. Pathé shed €48 to €240 for a two-day decline of more than 26 per cent.

FRANKFURT climbed back above the 5,000 level on the Xetra Dax index, adding 12.60 to 5,001.19.

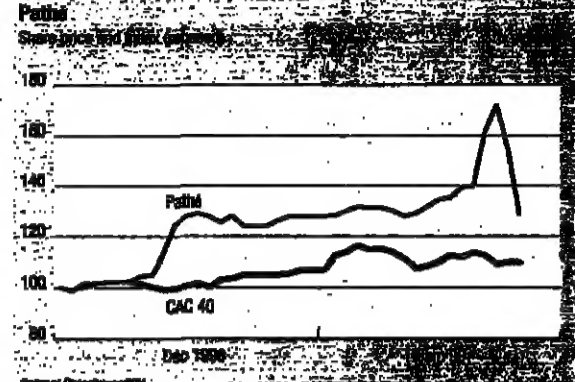
Motors were mixed with

Jo'burg falls in late sell-off

SOUTH AFRICA

Shares in Johannesburg moved lower on late profit-taking. The all share index closed up 11.3 to 5,822.3, down from a best of 5,823.3.

Traders said the late sell-off was sparked by renewed



the sector caught between a forecast of low German car registrations this year from the FAW research institute and an upgrade for Volkswagen at Morgan Stanley.

BMW shed €11 at €601.

VW, raised to "outperform" from "neutral" by the US broker, added €1.54 to €68.35 and DaimlerChrysler gained 65 cents at €88.55.

Software leader SAP was a firm feature, gaining €19 at €333.50. MAN ended at the other end of the performance charts, losing €5.75 to €294.25.

AMSTERDAM ended modestly higher, with most of the day's honours going to DSM and the publishing sector. The AEX index added 1.98 to €36.54.

DSM rose €3.10 to €76.50, while media stocks saw strong gains of more than 7 per cent for both YNU and Elsevier, which jumped €2.60 to €38 and 90 cents to €13.35 respectively.

Employment agency Randstad surged €2.30 to €50.30 after a note from ING upgraded the shares to "buy".

MILAN held up better than most west European markets, ending almost 1 per cent higher amid continued enthusiasm for stocks with Internet interests.

The Mibtel index rose 189 to 33,146 on a day of low trading volume. Internet beneficiaries included Class Editor, the media company, and Coffide, the holding group, which were both suspended limit up for a second day.

Class Editor finished €1.91 or 29.7 per cent higher at €6.98, up €2.125 from the

weakness for the Real, which lurched precipitously against the dollar in early trading in Brazil.

Industrial shares gained 23.5 to 4,470.9 but financials lost ground on local interest rate and currency concerns, dipping 17.9 to 8,480.7.

Pace of reform boosts Tokyo

ASIA PACIFIC

Shares in TOKYO pushed higher after traders became increasingly optimistic about the pace of banking reform in Japan, writes Gillian Tett.

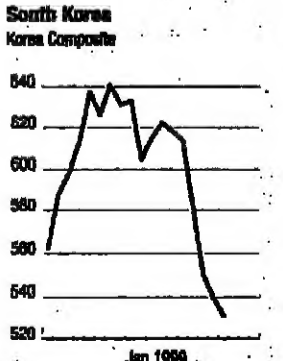
The market was also boosted by overnight gains in New York and hopes that the government might soon establish a new institution to help Japanese institutions unwind their vast cross-shareholdings.

In particular, the ruling Liberal Democratic party has started to discuss using this institution to avert sudden falls in equities.

The LDP has not yet produced firm proposals but the move has prompted some investors to hope the long-running structural reforms needed in Japan may finally be emerging.

The Nikkei 225 Average rose 1.2 per cent to 14,382. The day's trading range was 14,501.44 to 14,251.29. The Topix index of all first-section shares rose to 1,109.53, up 1 per cent, and the Nikkei 300 rose to 221.11, a gain of 1.3 per cent.

Volume on the first section was almost 500m shares,



comparable to the levels seen last Friday and markedly better than the 390m recorded on Thursday.

Banks were generally firmer, even though Moody's, the US credit rating agency, downgraded Bank of Tokyo Mitsubishi, Sanwa, Sumitomo and Toyo Trust. BTM gained ¥16 to ¥1,370. Sumitomo was up ¥17 to ¥1,413, Toyo Trust increased ¥2 to ¥233, while Sanwa Bank lost ¥7 to close at ¥1,075.

JAKARTA rebounded, recovering 80 per cent of the previous session's steep decline. At 388.15, the com-

posite index was up 16.67 or 54.1 per cent. Brokers said blue chips were the main target for investors.

Indofond jumped Rp450 to Rp4,500 and tobacco group Sampoerna rose Rp4,875 to Rp4,950. Telkom advanced Rp75 to Rp3,350.

But the strongest performance of the day came from cement group Indocement, which surged 20.2 per cent or Rp625 to Rp3,125 on the news that three foreign cement groups were in talks to buy a strategic stake in the company.

SEOUL, hit by futures-led selling at the end of the session, unwound early gains to leave the composite index off 8.53 at 581.23, a four-day decline of 14.5 per cent.

A Standard & Poor's upgrade for South Korea's sovereign debt sent shares higher at the opening, and the benchmark reached 582.45 before falling back under the impact of futures-driven arbitrage.

Korea Telecom lost Won1,000 at Won36,000. Korea Electric was a firm feature, adding Won1,400 at Won36,900.

MANILA rallied modestly, helped by overnight gains on

Wall Street and the better tone across Asia. The composite index, off 5.4 per cent on Monday, improved 30.82 or 1.6 per cent to 1,923.26, with financials driving the recovery.

Ayala Land gained 25 centavos to 12 pesos and Metrobank rose 12.50 pesos to 295 pesos. Filipino Telephone, a weak market lately on news of debt problems, edged higher, finishing 30 centavos ahead at 2.34 pesos.

BANGKOK also retraced some of the 3.5 per cent shed by the SET index on Monday. Buoyed by an active session for the banking sector, which rose 3.9 per cent, the benchmark gained 3.41 at 366.77.

Turnover, at Bt2.10bn, was consistent ahead of today's no confidence vote in parliament. Bangkok Bank gained Bt0.75 at Bt20.50.

TAIWAN rose 82.43 to 6,115.64 on the weighted index, thanks largely to a 2.8 per cent advance for the electronics sector.

Taiwan Semiconductor gained T\$5.50 to T\$84 while United Microelectronics surged T\$2.90 or 6.5 per cent to close at T\$46.20, its best of the session.

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